

COOPERATION WITH MARKET INTERMEDIARIES IN THE CHINESE MARKET

Danjun Qian

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ABSTRACT

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This bachelor's thesis was commissioned by a Finnish hospitality company. The purpose of this study was to improve the cooperation between the company and its marketing intermediaries in the Chinese outbound travel market. The products of the company are promoted, distributed and sold in the Chinese outbound market mostly through tour operators and travel agencies. Therefore, finding out how to build a better relationship with them is essential for the company. The method used in this study was to conduct a marketing research to analyze tour operators' and travel agencies' evaluations of the cooperation with the company and their suggestions for future improvement. This study started with the analysis of the company's marketing environment which includes Chinese outbound travel market, Chinese outbound tourists' travel behavior, the marketing strategies of the company's competitors as well as travel agencies and tour operators in China.

The study of Chinese outbound tourism showed that China has become the new number one tourism source market in the world due to growing disposable income, rapid urbanization, appreciating Chinese currency yuan, to mention a few examples. Leisure is the main purpose for Chinese outbound travelers and shopping accounts for the biggest part of their expenditure on outbound trips. However, the Chinese outbound tourists' travel demand is still young. Group tours are leading the market due to visa application service, language assistance and cheaper budget offered by travel agencies in China. Fully Independent Travelers (FITs) have increased dramatically in recent years. The vast development of online travel market and social media is changing the ways of marketing activities in China. Due to confidential concerns, the marketing research findings are presented in the appendices of this thesis.

Findings in this study suggested that the company would need to adjust its marketing strategy for the Chinese outbound travel market by taking into account all the changing market trends and customer needs. In the future, the company should create its own Chinese target customer profile and develop its marketing tools to build its brand image especially in the online travel market in China and provide more Chinese services to its marketing intermediaries and the Chinese outbound tourists.

Key words: Chinese outbound tourism, marketing intermediaries, consumer behavior

CONTENTS

1	INTRODUCTION	5
2	THEORETICAL FRAMEWORK.....	6
2.1	Tourism marketing.....	7
2.2	Marketing management	9
2.2.1	Marketing strategy	11
2.2.2	Marketing mix	14
2.3	Marketing environment.....	17
2.3.1	The company's macroenvironment.....	17
2.3.2	The company's microenvironment	19
2.4	Consumer buying behavior	22
2.4.1	Personal characteristics affecting consumer behavior	23
2.4.2	The buyer decision-making process.....	25
2.5	Marketing research.....	28
2.6	Data collection methods.....	29
3	MARKETING ENVIRONMENT FOR THE COMPANY X	31
3.1	Chinese outbound travel market	33
3.1.1	China's growing economy	33
3.1.2	The Chinese outbound tourists.....	34
3.1.3	China's new strategy and regulations to increase Chinese outbound tourism	40
3.1.4	China's online travel market	42
3.1.5	China's deteriorating environment.....	44
3.2	Chinese outbound tourists' travel behavior	45
3.3	Competitors.....	49
3.4	Travel agencies and tour operators in the Chinese market	51
4	MARKETING RESEARCH FOR THE COMPANY X.....	53
4.1	Research problems and objectives	53
4.2	Research process.....	54
4.2.1	Data collection	54
4.2.2	Questionnaire design.....	55
4.3	Results.....	55
5	DISCUSSION.....	56
	REFERENCES.....	58
	APPENDICES.....	61

Appendices 1-6 . Interview results	61
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1 INTRODUCTION

The research aimed to find out marketing tactics to improve the cooperation with tour operators and travel agencies in the Chinese market. This study was conducted for a Finnish hospitality company X. First the author examined the macroenvironment of the company X which consisted of the analysis of the current Chinese outbound travel market, Chinese outbound tourists' travel behavior and factors to choose Finland as a travel destination. Secondly, the author described the company's microenvironment which included the company X's marketing intermediaries in the Chinese outbound travel market and the analysis of its competitors' marketing strategies. The marketing environment analysis provided the company X with a big picture of the growing Chinese outbound travel market and pointed out the changing market trends and customer needs.

Finally, based on the company's marketing information system, a marketing research was designed for the company. The marketing research was conducted among travel agencies and tour operators in the Chinese outbound travel market. By analyzing the data collected from the marketing research, the main goal was to make the evaluation of the company's services from tour operators' and travel agencies' perspectives and to develop a better marketing strategy based on the research findings.

The key research question of this study was how to improve the cooperation with market intermediaries in the Chinese market. However, this key question raised more sub-questions, which could provide specific information needed for designing the marketing tactics. The sub-questions are listed as follows:

- How to develop the company's product features to attract Chinese customers?
- What is the preferred product price?
- What is the evaluation of current sales process?
- What are the factors contributing on building a good customer relationship?

2 THEORETICAL FRAMEWORK

In order to improve the marketing performance in a market, it is critical to define what is marketing. In the old sense, marketing is usually understood as selling and advertising. Although selling and advertising are certainly playing a crucial role as a function of marketing, marketing includes more than just the work of these two. There are many definitions of marketing made by marketing experts. According to Christopher Holloway (2004, 7), the definition of Chartered Institute of Marketing is:

Marketing is the management function which organizes and directs all those business activities involved in assessing customers' needs and converting customer purchasing power into effective demand for a specific product or service, and in moving that product or service to the final customer or user so as to achieve the profit target or other objectives set by the company or other organization.

Based on this definition, Holloway has stated three implications. First, marketing is considered as a management function within the company. Secondly, it lays out a framework for all the business activities carried out by the company. Finally, this definition underlies the whole philosophy of marketing and points out that all business operations start with identifying customers' needs and then producing the product or service to satisfy those needs (a marketing-oriented approach) as opposed to producing the product or service first and then find customers to sell (a product-oriented approach). (Holloway 2004, 7.)

The leading marketing theorists, Kotler, Armstrong, Saunders and Wong (2001) have defined marketing as a social and managerial process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others. They also emphasized on the importance of knowing customer needs and then creating and achieving product and value exchange in the marketplace.

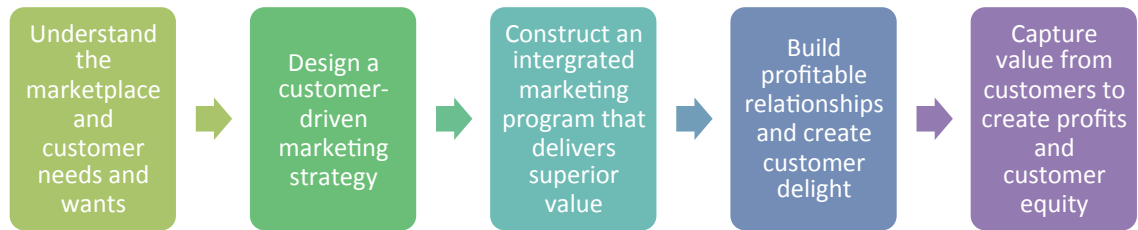


FIGURE 1. A simple model of the marketing process

Later on, scholars simplified the definition that marketing is an art and science of finding, retaining, and growing profitable customers. This definition points out that all marketing activities are about customers. According to this definition, a basic marketing process consists of five steps (figure 1). The first four steps describe companies' work on understanding customers' needs and wants and the marketplace within which they operate, designing marketing strategy and program, creating value for customers and building customer relationships. The last step points out that by creating value for customers, companies in return capture value from customers in the form of sales, profits and long-term customer equity. (Kotler & Bowen & Makens 2010, 11.)

2.1 Tourism marketing

Tourism consists of two main industries, hospitality and travel industries. A successful hospitality marketing highly depends on the entire travel industry. Therefore, marketers need to design their marketing activities in response to the changes of the target tourism market. In the marketplace, customers' needs and wants are fulfilled through a market offering: a product that is some combinations of tangible and intangible products. In the hospitality and travel industries, intangible products including customer service and experiences are more important than the tangible products. (Kotler & Bowen & Makens 2010, 10, 13.) Developing the service side of the business is substantial to succeed in the hospitality industry. Therefore, knowing the nature of tourism services to understand how the marketing needs of tourism products differ from those of the goods is the first step towards a successful hospitality marketing. (Holloway 2004, 17.)

Figure two shows the four characteristics of services: intangibility, inseparability, variability and perishability (Kotler & Bowen & Makens 2010, 35).

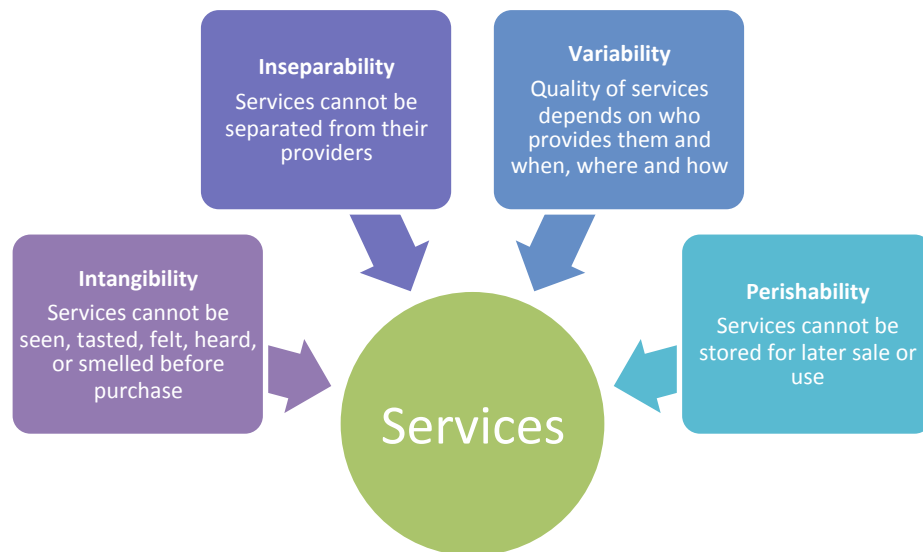


FIGURE 2. Four service characteristics

Intangibility. Services cannot be felt, experienced or examined before their purchase. There is no actual product that can be evaluated correctly until the moment of value exchange. It is the moment when service providers deliver the service to customers. Although this service intangibility has eased the physical distribution problem for tourism marketing since there is no need for warehouse or storage, it also has created a risk of service for purchasers which usually results in less commitment or loyalty of purchasers to the product brand.

Inseparability. Service product is consumed and produced when the customer and the service provider are participating simultaneously in the producing process. Both the customer and the service product cannot act independently during the process. This means that service providers must consider customers as part of their products when they are designing or managing the products and should make sure customers understand the service delivery system because they are coproducing the product. (Kotler & Bowen & Makens 2010, 36.) If customers do not have the knowledge of how the service delivery system works, even though the services are excellent, they may end up in a terrible experience situation. Therefore, service providers must train both their employees and customers to make the service coproducing process more enjoyable.

Variability. Service is highly personalized and variable because the service quality is affected by various elements, such as service providers' skills, time, place, customer's demand and others. In a high peak season, customers may not receive the same quality service as in other seasons. A more experienced employee may provide better service than an entry-level one. Service variability has increased the difficulty of ensuring the consistency of service quality control. In order to reduce variability and create consistency, there are three steps hospitality firms should take. The first step is to invest in good hiring and training procedures; the second is to make a standard service-performance process throughout the organization; the last step is to keep a track of customer satisfaction. (Kotler & Bowen & Makens 2010, 38-39.)

Perishability. Services cannot be stored to sell in another time. Unlike tangible products that can be sold next day, a service product if not purchased today, loses its value forever. This perishability of services is critical for making marketing decisions, particularly when determining pricing. Travel industry suffers from time-variable demand. Pricing strategies can help to keep a balance of demand by offering substantial reductions during periods of low demand (Holloway 2004, 18). The perishability of service products also requires service providers to manage their capacity with demand. In order to maximize hospitality firms' profit, they need to use their existing resources to provide the best service for the right amount of target customers.

2.2 Marketing management

Marketing management is the practical application of all marketing tools and the management of all marketing sources and activities. Kotler has defined marketing management as the art and science of choosing target markets and building profitable relationships with them (Kotler & Bowen & Makens 2010, 16). Implications from his definition suggest that hospitality firms have two concerns when they are designing marketing strategies. First firms need to decide who are the customers they will serve. Secondly they should find out how they can serve their customers best by differentiating their services from the ones of their competitors.



FIGURE 3. Managing marketing strategy and the marketing mix

Figure three shows marketing's role and activities and summarizes the major activities involved in managing a customer-driven strategy and marketing mix (Armstrong & Kotler 2009, 80). Building a profitable customer value and relationships are in the center of marketing activities. Market segmentation aims to find out the target market. After identifying the customers and their value, different marketing mix variables are designed to carry out the marketing plan which consists of marketing analysis, planning, implementation and control. During the process of marketing planning, analysis of market intermediaries, competitors, suppliers and publics also need to take into account.

2.2.1 Marketing strategy

Designing a customer-driven marketing strategy consists of defining target customers and choosing a value proposition for the company. Nowadays, most of the companies do not have the capacity or resources to attract all the customers in the market. Therefore, many companies have chosen target marketing instead of mass marketing. Companies must divide the market into different segments and choose the target segment(s) to serve. Figure four shows that market segmentation is the first step of target marketing (Kotler & Bowen & Makens 2010, 199).

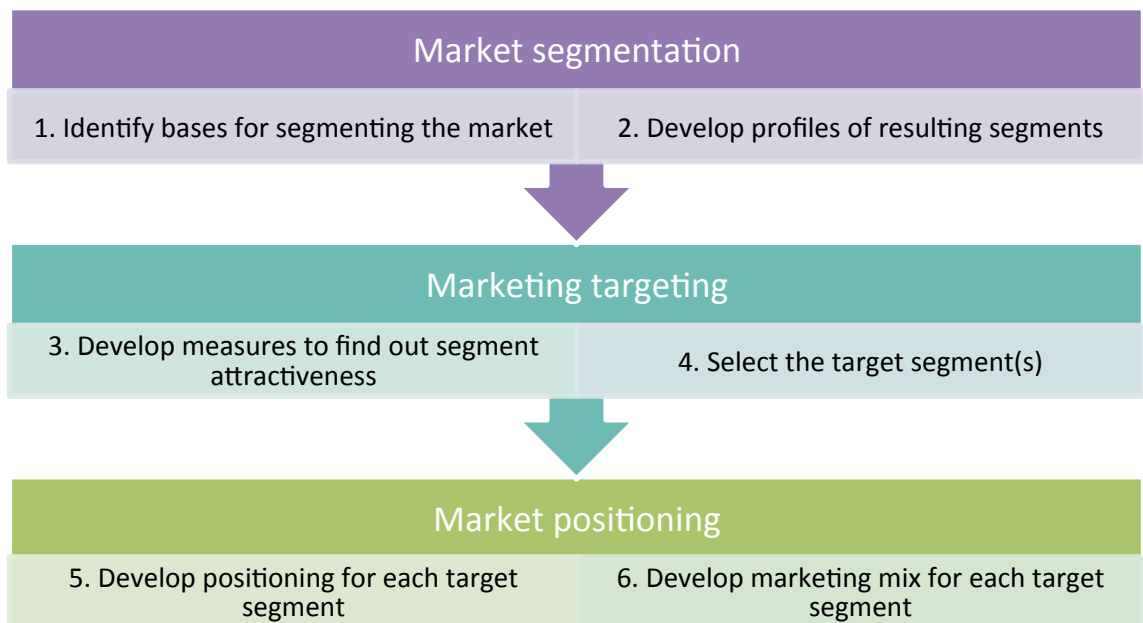


FIGURE 4. Steps in segmentation, targeting and positioning

Markets can be divided into different segments according to different bases. The most common used variables to divide markets are the geographic, demographic, psychographic and behavioristic variables. Table 1 has an outline of the major elements used to segment customer markets (Kotler & Bowen & Makens 2010, 200).

TABLE 1. Major segmentation variables for consumer markets

Geographic	Demographic	Psychographic	Behavioral
<ul style="list-style-type: none"> • World region or country • Country region • City or metro size • Density • Climate 	<ul style="list-style-type: none"> • Age • Gender • Family size • Family life cycle • Income • Occupation • Education • Religion • Race • Nationality 	<ul style="list-style-type: none"> • Social class • Lifestyle • Personality 	<ul style="list-style-type: none"> • Occasions • Benefits • User status • Usage rate • Loyalty status • Readiness stage • Attitude toward product

After market segmentation, companies need to evaluate each segment and choose the one(s) as target segment(s) to serve. Based on the examination of companies' own marketing objectives and marketing resources, companies should evaluate the size and growth space of each segment. The ideal segment usually thought to be the group that has big size, huge sale profit margin and high growth potential. However, this group is not the perfect target segment for all companies. For example, a small company does not have the resources to compete with big companies in this ideal market segment. Therefore, companies should evaluate the segment(s) according to their own resources and capacities. In addition to the size and growth of the segment, the company must examine several major structural factors that affect long-term segment attractiveness, such as existing competitors of the segment and profit growth space of the segment. (Kotler & Bowen & Makens 2010, 210.)

Three market-coverage strategies available for companies to choose from when appealing to the target market segment(s) are: undifferentiated marketing, differentiated marketing and concentrated marketing. Undifferentiated marketing means that a company offers the whole market the same product despite of different market segments. The company deploying undifferentiated marketing usually uses massive distribution and advertising to create its market image. Differentiated marketing refers to the fact that the company makes different marketing offers to different target segments. By doing this, the company usually can achieve more sales than by using undifferentiated marketing

because it can utilize most of its resources to satisfy market needs. The last one is concentrated marketing which is commonly used by small companies that have limited resources and capacities. They usually target one or few segments and put all marketing efforts into them.

Market segmentation and marketing targeting help the company to find out who are the customers they will serve and how to market their products to them. Market positioning, therefore, requires the company to position its services in the target market segment(s). According to Kotler, a product's position is the way the product is evaluated and defined by customers compared to its competitors. To be able to gain the competitive advantages in the target segments, the company should choose and implement its positioning strategy, and design its marketing mix to create the planned position. Figure five shows the basic three steps in the positioning task. (Kotler & Bowen & Makens 2010, 214.)



FIGURE 5. Three steps in positioning task

Competitive advantages are the attributes that the company uses to perform better than its competitors in the market. For example, the company could gain competitive advantage by offering a lower price to customers for the similar product or the company could provide better service quality to justify its higher price compared to its competitors. There are five differentiation attributes that can be developed: physical attribute differentiation, service, personnel, location and image. (Kotler & Bowen & Makens 2010, 215, 225.) After identifying the competitive advantages, the company should

evaluate the differences and choose the right competitive advantages because not all the differences are worth taking into action. When competitive advantages are chosen, the company should communicate and deliver the position correctly to its target customers by carrying out the market plan, which includes the various practical applications of marketing techniques and tools.

2.2.2 Marketing mix

Marketing plan consists of a wide range of marketing activities aiming to deliver superior value to customers. Marketing mix is the central part of a marketing plan and defined by Kotler as the set of manageable and tactical marketing tools that the firm uses to achieve the response it wants in the target markets (Kotler & Armstrong & Saunders & Wong 2001). The four variables that need to be analyzed to lay the core foundation of a marketing plan are product, price, promotion and place. When the product is a service, another three Ps, people, process and physical evidence were added into the marketing model to reflect the holistic marketing concept (Kotler & Keller 2012, 47). In the case of tourism marketing, more consumer-oriented variables were developed to satisfy the target market. Lauterborn's "4Cs", referred to consumer, cost, communication and convenience, were used in association with "7Ps" to achieve a comprehensive marketing tool to fit the market better.

Product. A product is the actual value delivered to customers to satisfy a want or need. Kotler defined the term product as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need. (Kotler & Bowen & Makens 2010, 230). A tourism product can be quite complex and it usually includes intangible goods, services, people, place, organizations or ideas. These product elements should be designed together with Lauterborn's first "C", Consumer. To study what consumer wants and needs is essential to produce a right product. Service providers need to develop and analyze their products from four levels as shown in figure six: the core product, supporting product, facilitating product and the augmented product, adapted from Grönroos (1987, 83). (Kotler & Bowen & Makens 2010, 231.)



FIGURE 6. Product levels

A core product is the product delivering the most important value that fulfills customer needs and wants. Facilitating products are services or goods that are essential to deliver the core product to customers to use. Support products are the extra products offered by companies to position their product, to add value to the core product and to help to differentiate it from the ones of the competitors. Facilitating products are a “must” to produce the core product, whereas support products are not. The last level is the augmented product. The elements in this augmented product are various and mainly focus on physical environment, customers’ interaction with the service organization, and customers’ participation and interaction with each other. These elements are combined with the core product, facilitating products and support products to design the augmented products, which contain all the factors that might affect the company’s performance in the target marketplace. (Kotler & Bowen & Makens 2010, 233.)

Price. It refers to how much ultimately customers paid for the product. Setting a price for a product plays a critical role in the marketing mix. For producers, price is the figure at which they are prepared to make the product available to the consumers. Not only production expenses, but also marketing budget, sales expenses, accounting costs and

other factors should be taken into account for determining the price. On the other hand, customers' interpretation of product prices is affected by their value. A fair price is the Cost (second "C") for customers to satisfy needs and wants. Many factors affect costs, monetary cost is only part of it, such as time, energy to acquire a new product or cost to choose competitors' product etc.

Place. Controversially, nowadays place as a variable for tourism product does not usually happen in the point of sale, as the generally marketing theory defined. It usually has been defined in terms of the distribution channel of the product. The concept place also means the location of tourism services, but here the focus is on distribution channels. Respectively, Lauterborn's third "C", Convenience is from consumer's perspective for marketers to decide how and where to deliver a company's product. With the rapid growth of ICT applications, place becomes less relevant especially in hospitality industry since companies can display their products online and make transactions through Internet as well.

Promotion. A company's promotion mix, also called marketing communications mix, consists of the specific blend of selling, advertising, public relations, personal selling, sales promotion, direct-marketing, sponsorship, exhibitions, word of mouth, e-marketing and many other tools that the company uses to communicate customers the value and to build customer relationships (Smith & Taylor 2004, 8). This is critical for hospitality companies in their intention to succeed in relationship marketing with tour operators and travel agencies.

People. It refers to employees and customers. Internal marketing to employees is a must for companies to acquire marketing success. Only when people inside the organization perform well during the marketing process can the marketing activities achieve the best response. It requires that marketers must view customers as people to understand their lives more broadly, not just as they shop for and consume products and services. (Kotler & Keller 2012, 47.)

Process. It reflects all the activities, discipline and structure brought to marketing management. Only by instituting the right set of process to guide activities and programs

can a firm engage in mutually beneficial long-term relationships. Good experience of process between customers and service providers has a positive influence on building customer relationships.

Physical evidence. It is also called the experience environment or the surroundings where the service takes place. The physical evidence includes any tangible items shown to or received by customers during the process. It will impact on both the customer's and the service provider's behavior and experience of the service. This is because both the service provider and the customer respond emotionally and physiologically to the perceived environment, and these responses ultimately impact on behavior. (Kotler & Keller & Brady & Goodman & Hansen 2012, 759.)

2.3 Marketing environment

A company's marketing environment contains all the factors that might affect the company's performance in the target marketplace. Based on the scale, a company's marketing environment can be analyzed from two levels, microenvironment and macroenvironment.

2.3.1 The company's macroenvironment

The company's macroenvironment includes all the factors that affect the whole industry or marketplace the company intends to target. It poses threats and provides opportunities in a big background for the company. The major forces in the company's macroenvironment are shown in figure seven.

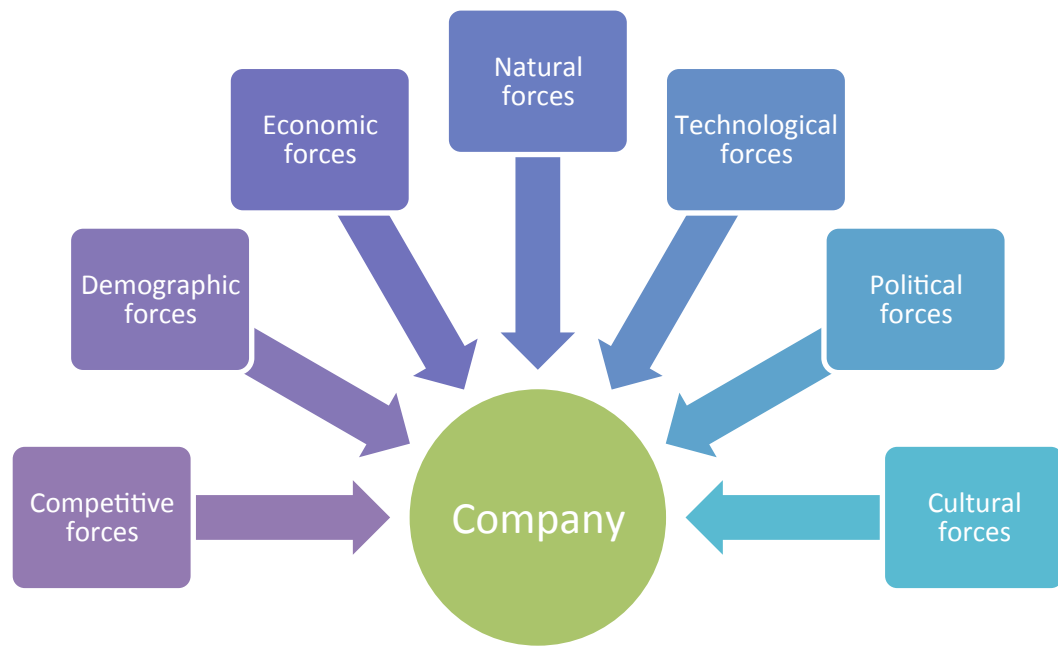


FIGURE 7. Major forces in the company's macroenvironment

Competitive forces refer to the ability of the company to enter and exit the target market (Porter 1980). Low barriers usually mean less capital and less limitations to entry the market and makes the market less predictable for the company. High barriers to entry the market spares some time for the company to react to the competition, but also leads to a not so easy exit for the company. Companies that entry into the high barriers market usually need to invest a large amount of capital in terms of qualification. They will not give up the market easily. This might create an intensive price war in the target market.

Demographic forces are the population factors in the target market. They are the statistics of population size, density, location, age, gender, race, occupation and others. The market place is made of people. People are the end customers to make value exchange. The changes in the demographics environment have important implications to the business.

Economic forces are the factors that affect customers' purchasing power and spending patterns. In the tourism market, the changes in disposable income and changing global economy resulting in the currency fluctuation are all economic forces to affect the target market.

Natural forces are divided into two parts: the one used as marketing resource and the other affected by marketing activities. According to recent research, there are three trends in the natural environment: growing shortage of raw material; increased pollution; increased government intervention. (Kotler & Bowen & Makens 2010, 98-99.)

Technological forces are nowadays the most significant element reshaping the company's marketing environment. The development of Internet has changed the way people communicate with each other. This also affects service providers' marketing activities in various aspects. It has had a profound effect on the hospitality and travel industries by creating a new distribution channel for service providers and by providing information online for travelers.

Political environment consists of laws, government agencies and pressure groups that influence and limit the activities of various organizations and individuals in the society. Typical political forces affecting business are the legislation and regulation made by the government, changing government agency enforcement and the increased emphasis on socially responsible actions and ethics. (Kotler & Bowen & Makens 2010, 101-102.)

Cultural environment includes institutions and other forces that affect a society's basic values, perceptions, preferences and behaviors. All the activities in the society are affected by the culture values. The persistency of culture values and different subcultures are two cultural characteristics that can affect marketing decisions. (Kotler & Bowen & Makens 2010, 104.)

2.3.2 The company's microenvironment

The company's microenvironment consists of factors that are close to the company and affect the company's performance to serve its target customers. The major factors are listed in figure eight.

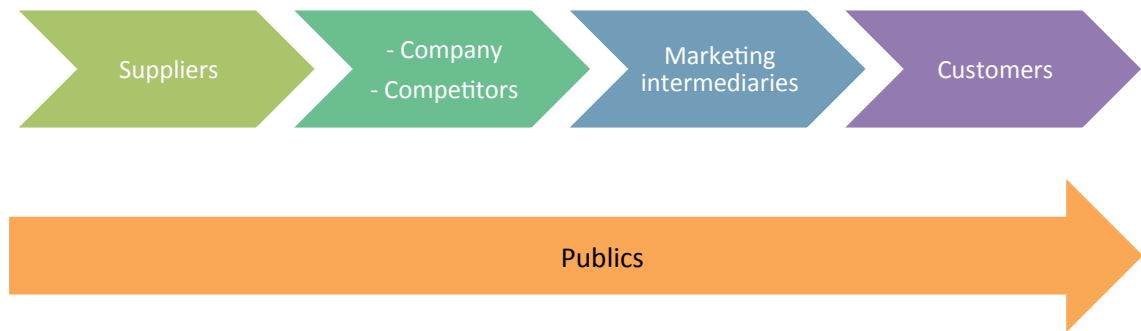


FIGURE 8. Major factors in the company's microenvironment

First the company needs to take a close look at itself. The marketing activities and marketing performance do not only depend on marketing departments, but also depend on other departments, such as the production department which produces products or services to end consumers, the finance department which controls the marketing budget funds, and the accounting department which helps to evaluate the marketing activities. Also the top management should understand the marketing strategy and carry out the strategy throughout the whole company's operation. All employees in the company should be trained and have the customer-oriented attitude. A good internal marketing is needed to achieve a better communication and customer interaction.

Existing competitors are posing the direct threat to the company. By examining the current competitors' strategies and market share, the company can design own marketing strategies to gain competitive advantages and position its value better in the target market segment(s) based on its own strategies and resources.

The suppliers are organizations and individuals providing resources to the company to produce its products and services. Suppliers are in the beginning of the product line. Changes and trends of suppliers will definitely affect the rest of the process of marketing.

Marketing intermediaries are the organizations helping the company to promote, sell and distribute its goods to the final buyers. The reasons most hospitality firms use marketing intermediaries to move their products to end customers are the different functions of different distribution channels. (Kotler & Bowen & Makens 2010, 330.)

TABLE 2. Distribution channel functions

Information	<ul style="list-style-type: none"> Gathering and distributing marketing research and intelligence information about the marketing environment
Promotion	<ul style="list-style-type: none"> Developing and spreading persuasive communication about an offer
Contact	<ul style="list-style-type: none"> Finding and communicating with perspective buyers
Matching	<ul style="list-style-type: none"> Shaping and fitting the offer to buyer's needs
Negotiating	<ul style="list-style-type: none"> Agreeing on price and other terms of the offer so that ownership or possession can be transferred
Physical distribution	<ul style="list-style-type: none"> Transporting and storing goods
Financing	<ul style="list-style-type: none"> Acquiring and using funds to cover the costs of channel work
Risk taking	<ul style="list-style-type: none"> Assuming financial risks

Intermediaries are business firms that help hospitality companies to find customers or make sales. In hospitality and travel distribution system, there are different kind of market intermediaries, including travel agents, wholesale tour operators, specialists, hotel representatives, global distribution systems, the Internet and concierges. (Kotler & Bowen & Makens 2010, 332).

According to Kotler, there are five types of customer markets that hospitality firms need to study when marketers build up the marketing strategy. They are listed in table three (Kotler & Bowen & Makens 2010, 91).

TABLE 3. Five types of general customer markets

Consumer markets	Business markets	Reseller markets	Government markets	International markets
<ul style="list-style-type: none"> individuals and households leisure activities, medical needs, and gathering, etc. 	<ul style="list-style-type: none"> individuals or organizations facilitate business 	<ul style="list-style-type: none"> business firms purchase and resell 	<ul style="list-style-type: none"> government agencies individual travelers and meetings 	<ul style="list-style-type: none"> Buyers in other countries: customers, businesses, resellers and governments

Publics are any public factors that have effect on the company's ability to perform in the target market. There are seven types of publics defined by Kotler: financial publics, such as banks; media publics which include newspapers, magazines, radio and television stations; government publics, such as laws and regulations; citizen-action publics, for example consumer organizations, environmental groups; local publics include neighborhood residents and community organizations; general publics and internal publics which include workers, managers, volunteers and the board of directors. (Kotler & Bowen & Makens 2010, 91.)

2.4 Consumer buying behavior

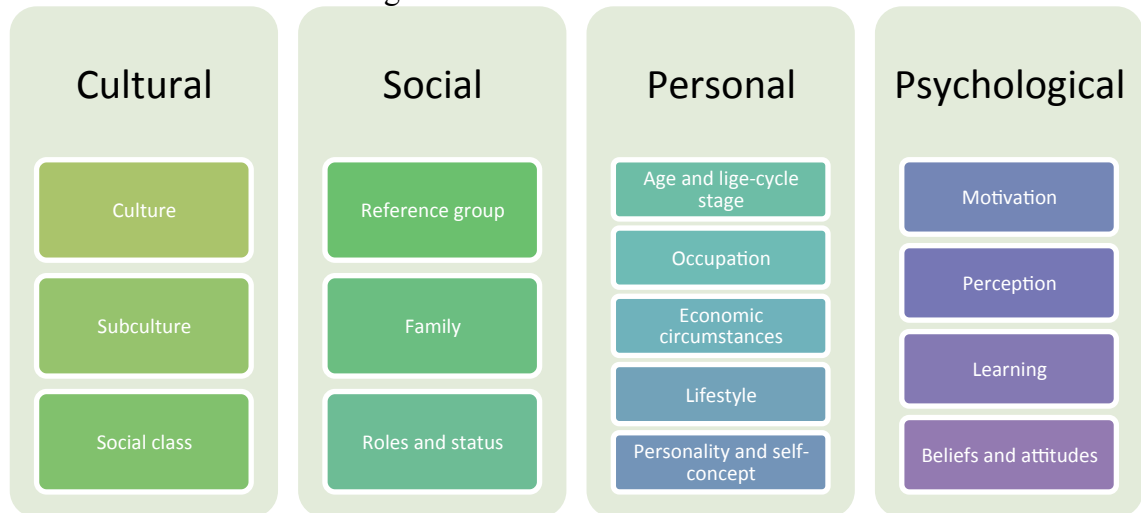
Market is made up of individuals and organizations that are willing to exchange values to satisfy needs and wants. During the process of selecting, purchasing and consuming the products or services to satisfy needs and wants, customers usually engage in the activities from three aspects: mental, emotional and physical (Wilkie 1994, 14). Studies of consumer behavior are focused on how customers make the decisions and what customers' spending patterns are.

In tourism market, tourists are customers who purchase a number of diverse travel and tourism services. By knowing who are the customers to buy tourism services, why do they purchase them and what are their buying characteristics, hospitality firms will not only be able to tailor their products more closely to their customers' wants and needs, but also be better able to select the right advertising and sales messages used to inform and persuade those clients to buy the products. (Holloway 2004, 101.) Market segmentation, explained in the former chapter, has identified who are the customers. But what are their motivations? What are their buying characteristics? Marketers must also take them into account during the process of making a marketing plan.

2.4.1 Personal characteristics affecting consumer behavior

Consumer purchases are strong influenced by cultural, social, personal and psychological characteristics as shown in table four (Kotler & Bowen & Makens 2010, 151).

TABLE 4. Factors influencing behavior



Cultural factors. As explained in the former chapter, culture is one aspect that needs to be analyzed in the company's marketing environment. Here, the cultural factors contribute as a foundation of consumer buying behavior and include three levels: culture, subculture and social class. Culture is the intangible part, hidden under all the tangible products design and customer behaviors, such as the food, travel destination, fashion design, etc. The culture is dynamic and adapting to the changing environment (Kotler & Bowen & Makens 2010, 151). Marketers should follow the trends and make their marketing plan to fit the target marketplace. For example, in the tourism market, if the cultural shift towards more self-planned customized outbound trips choosing small and historical cities as travel destinations, travel agencies and tour operators would add their service of those destinations into their product offers, especially for Fully Independent Travelers (FITs). Under the big cultural background, there are many subcultures. They are groups of people sharing the same value systems based on common life experience. Subcultures can be divided according to their nationalities, religions, racial groups or geographic regions. (Kotler & Bowen & Makens 2010, 152.) Social classes exist in every society. Depending on different criteria and indications, there are various ways of

dividing them. Members in the same social class usually share the same interests, values and behaviors. This is because social class members want their identification to be shown to or known by outsiders. Therefore they usually have different ways of behaviors, such as their brand preferences over food, fashion, leisure activities etc.

Social factors. Customers live in a society where people have influence on each other. These interrelationships are reference groups, family, roles and status. Reference groups are groups to which people do not belong to and usually service as a direct (face-to-face) or indirect point of comparison or reference in the forming of a person's attitudes and behaviors. (Kotler & Bowen & Makens 2010, 154.) Marketers should identify the reference groups of the target market at least from their behaviors, lifestyles, attitude and self-concept. Reference groups commonly have their opinion leaders. These are the people who have special skills, education or career background and personality to influence the others in the group. Meanwhile, a person's buying behavior is strongly influenced by family members. To find out who are the most influential members in the family is essential for marketers to design their marketing strategies. A person has many roles and status. In different purchasing situations, person's buying behavior will change based on the roles and status. For example, a purchasing manager would buy different desks for the company use and home use.

Personal factors. In order to analyze a person's buying behavior, marketers have to create a customer profile that identifies the age and life-cycle stage, occupation, economic situation, lifestyle, personality and self-concept. All these factors are combined together with cultural and social factors to influence the buying behavior. For example, a young teenager influenced by the online social network groups might have a totally different buying behavior compared to wealthy upper class elderly people.

Psychological factors. There are four major psychological factors: motivation, perception, learning, beliefs and attitudes. Motivation generates market needs. Studying customers' motivation will provide profound information to create a better core product to satisfy customers' needs and wants. This will be explained more in the next chapter concerning buyers' decision-making process. Customers' perception and learning will affect their opinions when they are analyzing and selecting the products. Perception is

the process by which an individual selects, organizes, and interprets information to create a meaning picture of the world (Sirgy 1982, 287-300). People learn from experiences and select products based on their learning outcomes. Therefore, marketers should design their marketing strategies in a way that would efficiently help customers to learn the quality of the product. After perception and learning, customers' beliefs and attitudes will affect customers' buying behavior in a specific way. Beliefs are personal descriptive thoughts of a company's products. Attitudes are a person's relatively consistent evaluation, feelings and tendencies toward an object or an idea. These both will result in a preference for a brand image. (Kotler & Bowen & Makens 2010, 163.)

2.4.2 The buyer decision-making process

The buyer decision-making process is the process how customers make the decision on purchasing the product. It usually consists of five stages: need recognition, information search, evaluation of alternatives, purchase decision and post purchase behavior (figure 9).



FIGURE 9. Buyer decision-making process

This buyer decision-making process can also be applied to the tourism industry. Figure ten shows a five-stage decision-making process of buying tourism products, suggested by Mathieson and Wall (1982, according to Swarbrooke & Horner 1999, 40).

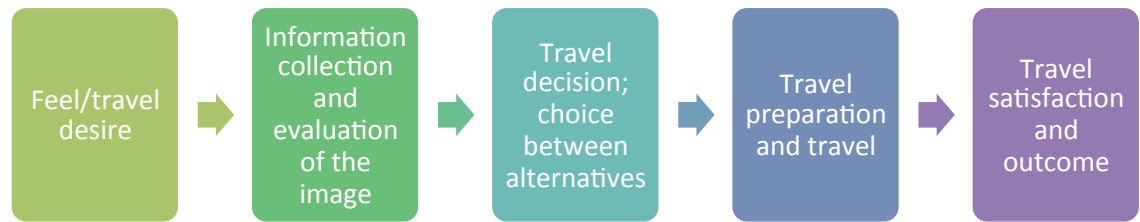


FIGURE 10. Five-stage linear buying behavior in tourism

Travel motivation. The purchasing process of a tourism product starts with a travel motivation or desire. Abraham Maslow explained the reason why people are driven by particular needs at particular times; the reason is that human needs are arranged in a hierarchy (figure 11), from the most pressing to least pressing (Kotler & Bowen & Makens 2010, 161). More basic needs have to be satisfied before desires arise for higher-level needs (Holloway 2004, 102). A person tries to satisfy the most important need first. When the important need is satisfied, it stops being a motivator, and the person will then try to satisfy the next most important need. (Kotler & Bowen & Makens 2010, 161.) However, the way to perceive motivation is built up of a complex interrelationship of beliefs and attitudes which arise out of our knowledge and opinion (Holloway 2004, 102).

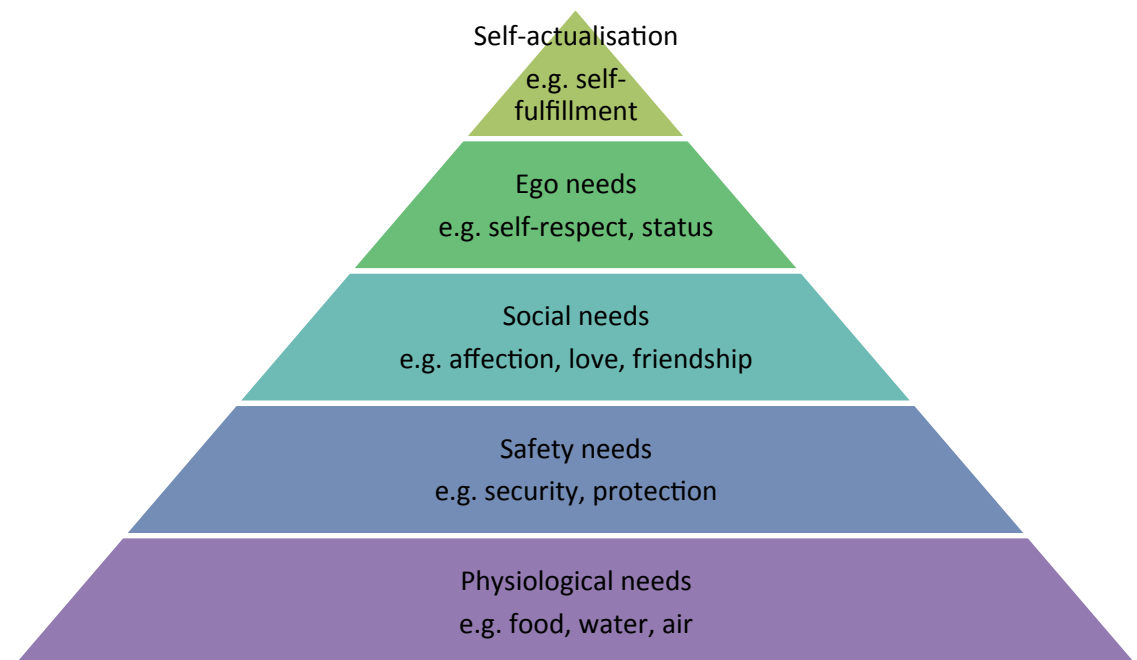


FIGURE 11. Maslow's hierarchy of needs

Information search. Having a travel motivation, the next step customers will carry out is the information search. According to Kotler, there are mainly four groups of sources that consumers can obtain from (table 5) (Kotler & Bowen & Makens 2010, 166).

TABLE 5. Four groups of information sources

Personal sources	Commercial sources	Public sources	The Internet
<ul style="list-style-type: none"> •family •friends •neighbors •acquaintances 	<ul style="list-style-type: none"> •advertising •salespeople •dealers •packaging •displays 	<ul style="list-style-type: none"> •restaurant reviews •editorials in the travel section •consumer rating organizations 	<ul style="list-style-type: none"> •the company's website and comments from previous guests

In the hospitality and tourism industry, personal and public sources are more important than commercial sources. Because tourism product is intangible, customers will not experience the travel product until the moment they consume it. Marketing promotion activities in the commercial sources are usually doubted by customers. As a result, people usually prefer to ask their families, friends, and neighbors for advice regarding tourism products. By gathering information from different sources, customers will have more knowledge and awareness of the available choices and products. A company should design its marketing mix to make prospects aware of and knowledgeable about the features and benefits of its products or brands. Furthermore, in order to distinguish from the market, the company should also analyze its competitors' market information to design a differentiated appeal. (Kotler & Bowen & Makens 2010, 166.)

Travel decision/choice between alternatives. After having all the information gathered, customers would evaluate each available choice and make the final decision. There is no specific evaluation process. Customers usually first evaluate different aspects of the product. For example, the aspects of a travel destination could be safety, location, history, attractions, etc. Then customers will rank the importance of these aspects of the product based on their own opinion and beliefs.

Travel preparation and travel. Travel preparation refers to all the activities and preparation done by customers before the trip begins. For example, it includes visa application, arrangement of accommodation and transportation, agenda design, etc. Once customers

have purchased the journey, the actual travel product is consumed the same time the journey starts.

Travel satisfaction and outcome. The marketers' job is not finished when they sell out the tourism services to customers. Customers will be satisfied or dissatisfied after they have purchased the product. Post purchase travel satisfaction and dissatisfaction is vital information for marketers. In order to determine whether the customers are satisfied or dissatisfied, marketers should find out the relationship between consumer expectations and perceived product performance. If the travel product matches expectations, the customer will be satisfied. If the product falls short, the consumer will experience dissatisfaction. Furthermore, if a product exceeds customers' expectations, the customers will be delighted. Delighted satisfaction is what marketer should aim for in today's competitive tourism market. (Kotler & Bowen & Makens 2010, 167.)

2.5 Marketing research

Marketing research studies are conducted for a specific situation facing the company and usually launched only when there is a specific need for information that is not available from the company's internal reports, intelligence, or the marketing decision support system (Burns & Bush 2010, 35). American Marketing Association (Bennett 1995, 169) has defined that marketing research is a process that identifies and defines marketing opportunities and problems, monitors and evaluates marketing actions and performance, and communicates the findings and implications to the management (Burns & Bush 2010, 35).

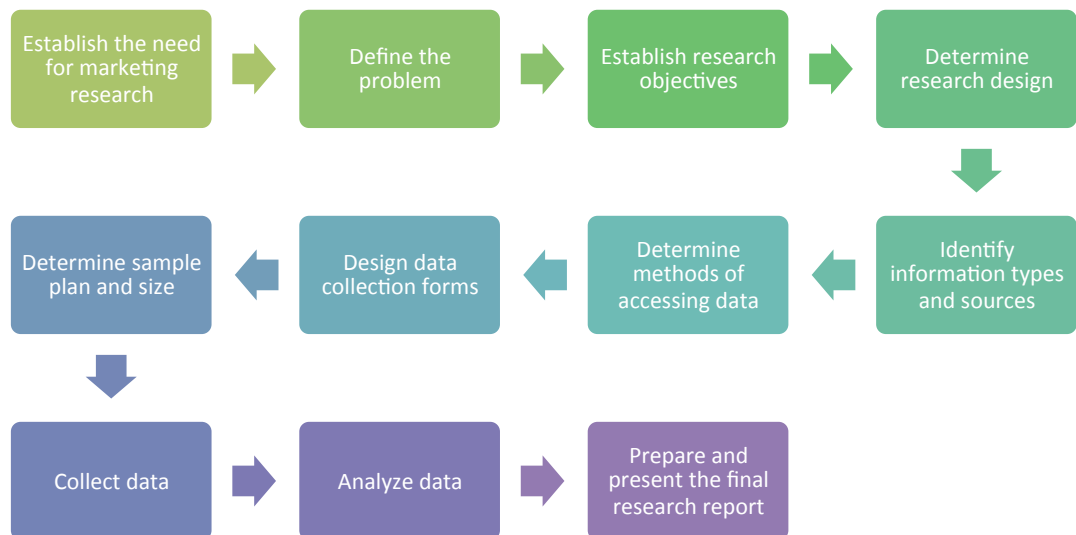


FIGURE 12. Eleven steps of marketing research process

In general, the marketing research process consists of four steps: defining the problem and research objectives, developing the research plan, implementing the research plan and interpreting and reporting the findings (Kotler & Bowen & Makens 2010, 125). In a more detailed process shown in figure 12, eleven steps have been identified (Burns & Bush 2010, 50).

2.6 Data collection methods

Data needed for a marketing research has been divided into two types, primary data and secondary data. Primary data consist of information collected for the specific purpose at hand. Planning primary data collection includes four parts: research approach, contact method, a sampling plan and research instruments (Kotler & Bowen & Makens 2010, 127). Secondary data consist of information already existing and collected for some other purposes.

The data collected for this research consisted of both primary data and secondary data. Primary data were collected from the qualitative marketing research conducted in this study. A descriptive survey was carried out through telephone interviews, email questionnaires, and personal face-to-face interviews. In terms of secondary data, it was

mainly derived from literature, statistics, other thesis material and information from Internet.

3 MARKETING ENVIRONMENT FOR THE COMPANY X

Xi Jinping, President of the People's Republic of China predicted during his speech in Asia-Pacific Economic Cooperation meeting (APEC) on 9th of November 2014 in Canberra, Australia that the number of Chinese outbound tourists will reach to 500 million in the coming five years (Xi Jinping, Xinhua 2014). China has become the new number one tourism source market in the world according to World Tourism Organization (UNWTO) press release in 4th of April 2013. This is not only seen by the growing number of Chinese outbound travelers, but also their increasing purchasing power and wealth which accounts for 20% of global tax free shopping expenditure (World Tourism Organization UNWTO 2013).

National Tourism Administration has published the statistics (figure 13) of the Chinese outbound travel market that achieved a tremendous growth in the past years and it is still growing continuously according to the Market Research Report on Chinese Outbound Tourist Consumption committed by World Tourism Cities Federation and conducted by Beijing Ipsos Market Consulting Co., Ltd, (WTCF & Ipsos 2014, 6). The Annual Report on China Outbound Tourism Development 2014 states that the Chinese outbound tourist arrivals reached 98.19 million in 2013, 18.0% more than in 2012.

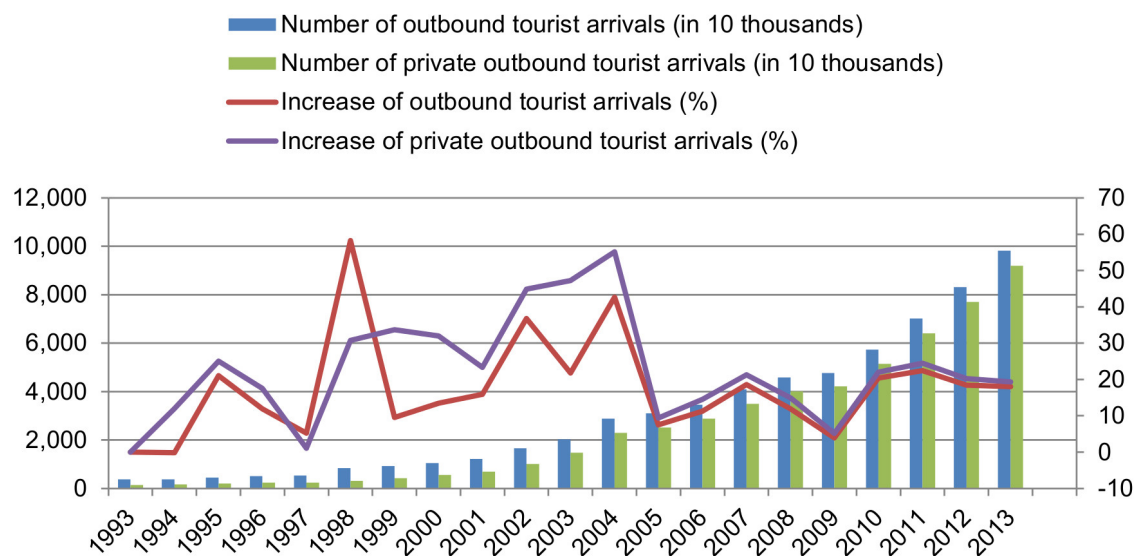


FIGURE 13. Chinese outbound tourism arrivals increase in 20 years

The market research conducted by Ipsos (WTCF & Ipsos 2014, 7) reports that the scale of Chinese tourists' expenditure on abroad trips has also reached a new high record based on the data from National Tourism Administration (figure 14). In 2013, Chinese tourists spent over 128.7 billion US dollars abroad, an increase of 26.8% over 2012 (102 billion US dollars).

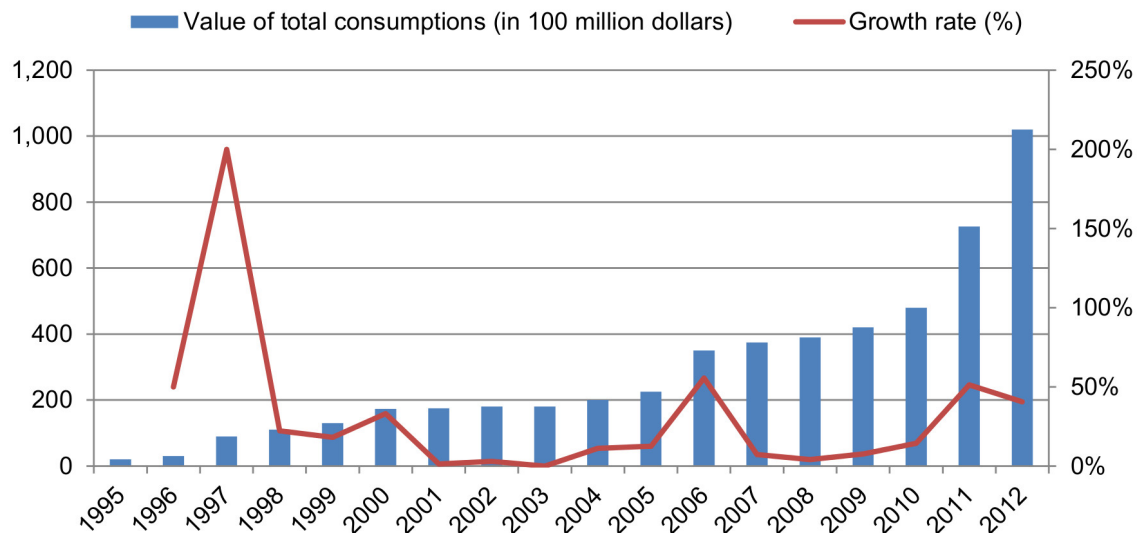


FIGURE 14. Total consumption of Chinese outbound tourists

There are several factors contributing to this fast growing tourism source market such as the rapid urbanization, rising disposable incomes and less restrictions on foreign travel, the supportive policies made by the government, the appreciating Chinese currency yuan, etc. (World Tourism Organization & the European Travel Commission, The Chinese Outbound Travel Market 2012 - Update, Executive summary). To find out what are the forces boosting the Chinese outbound tourism market and what are the travel behaviors of Chinese outbound tourists are essential for hospitality and tourism companies in the travel destinations to attract more Chinese customers.

3.1 Chinese outbound travel market

The major forces of boosting the Chinese outbound travel market as the macroenvironment for the company X analyzed in this study consisted of economic forces, demographic forces, political forces, technological forces and natural forces.

3.1.1 China's growing economy

In 2010, China became the second largest economy after the United States of America instead of Japan. It is increasingly playing an important and influential role in the global economy (The World Bank 2014, China Overview). Based on the estimates made by both Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF), China's economy is predicted to surpass the United States of America in a few years (by 2017, according to IMF) and to become the largest economy in the world (Wonderful Copenhagen. Research & Development, Review of China's Outbound Travel Market 2013, 15).

According to the report released by National Bureau of Statistics of China in January 20th 2014, the gross domestic product (GDP) of China was 56,884.5 billion yuan in 2013, an increase of 7.7% compared to 2012 (National Bureau of Statistics of China, China's economy showed good momentum of steady growth in the year of 2013). Figure 15 shows that the residents' income continued to increase and the per capita total income of urban households was 29,547 yuan equaling to 3,862 euros based on current exchange rate. Specifically, the per capita disposable income of urban households was 26,955 yuan (3,524 euros based on current exchange rate) with the growth of 9.7%. Increasing disposable income implicates that Chinese tourists will have more capital to spend on travelling (Statista 2014).

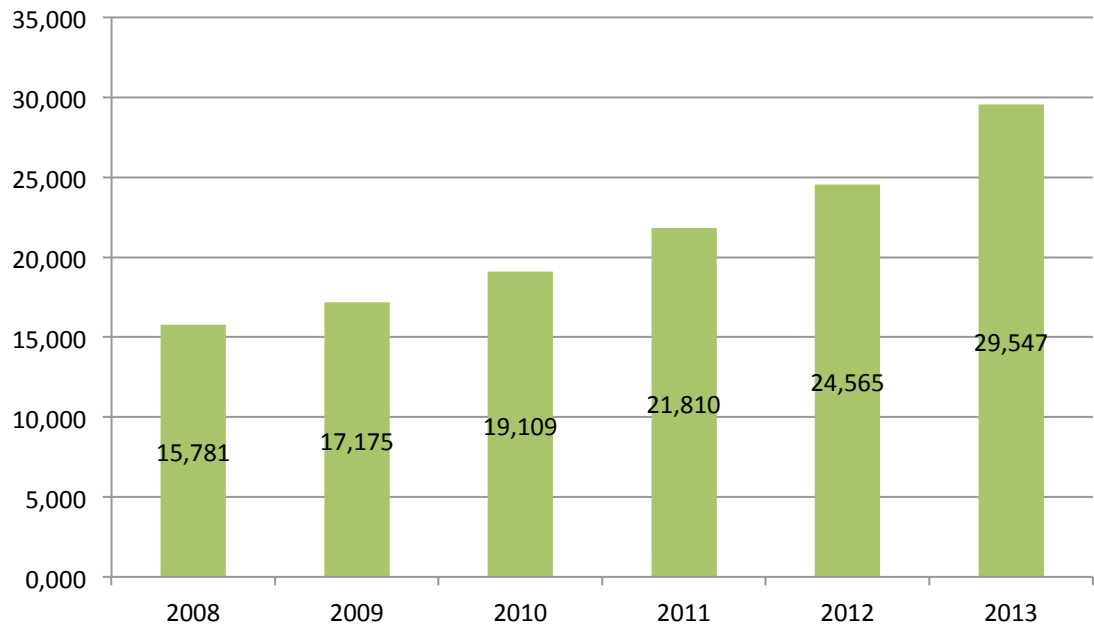


FIGURE 15. Per capita disposable income of urban households in China from 2008 to 2013 (yuan)

The consistent appreciating Chinese currency yuan is another driver of the Chinese outbound tourism market. In 2010, 1 yuan equaled to 0.0991 euros; in 2011, 1 yuan to 0.1142 euros; in 2012, 1 yuan to 0.1222; in 2013, 1 yuan to 0.1205 and in 2014 currently, 1 yuan to 0.1315 euros (Historic Exchange Rates 2014). The value of Chinese yuan exchanged to euros increased approximately 33% in five years. This resulted in more purchasing power of Chinese outbound tourists' travel expenditure.

3.1.2 The Chinese outbound tourists

Regional distribution of Chinese outbound tourists

China has the world's largest population of 1.35 billion people, equivalent to almost 1 in 5 inhabitants (World Tourism Organization & the European Travel Commission, The Chinese Outbound Travel Market 2012 - Update, Executive summary). Most outbound travelers are from China's three leading cities: Beijing, Shanghai and Guangzhou, fol-

lowed by coastal provinces such as Jiangsu, Zhejiang and Shandong. However, thanks to the rapid urbanization, outbound travelers from second or third-tier cities, especially in Central and Western China are emerging fast. Figure 16 shows Liaoning in Northeast China, Hubei in Central China and Sichuan in Southwest China are provinces that have the third biggest share of Chinese outbound tourists. (WTCF & Ipsos 2014, 8.) By 2020, it is predicted that there would be more than 800 urban locations in central or western regions of China. Residents in these locations are projected to have higher disposable income than those in Shanghai (Wonderful Copenhagen. Research & Development, Review of China's Outbound Travel Market 2013, 20).

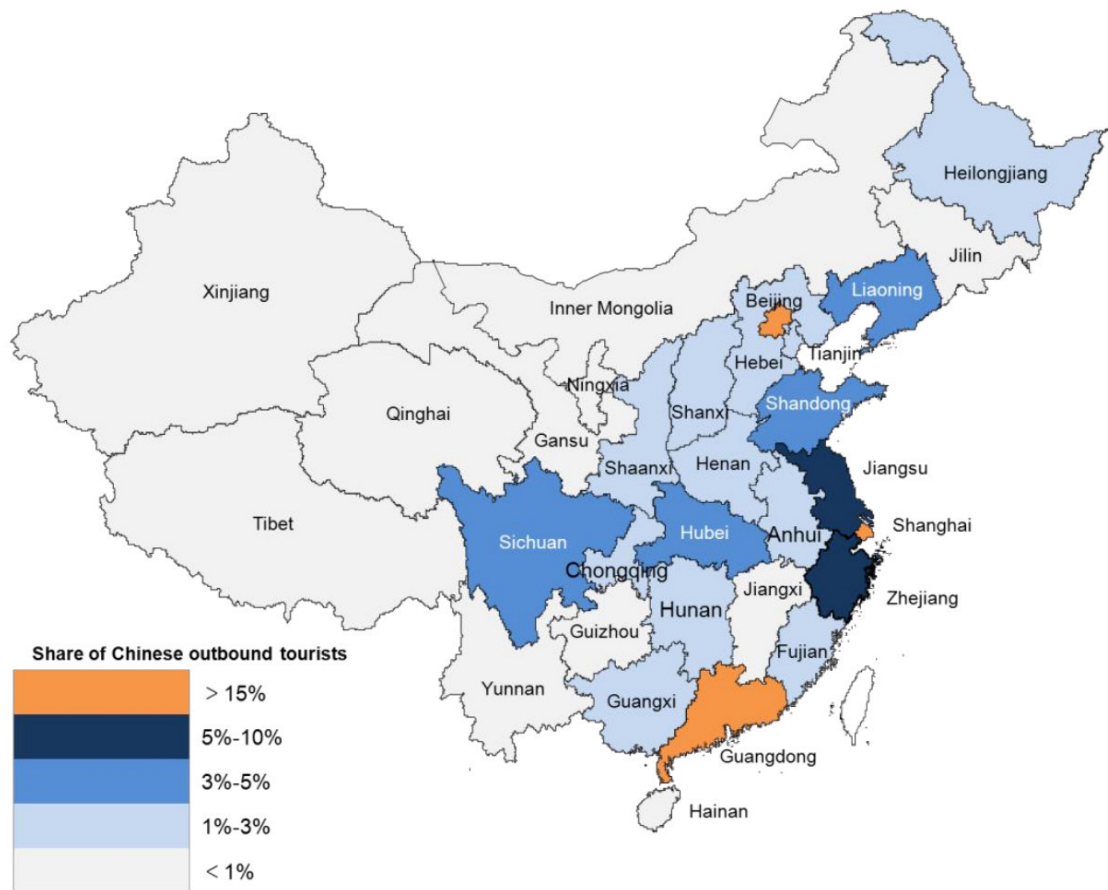


FIGURE 16. Regional distribution of Chinese outbound tourists

Age distribution and life-cycle

More than a quarter century ago, the Chinese government passed regulations limiting families to one child policy. As a result, Chinese children – known as “little emperors and empresses” – have been showered with attention and luxuries under six adults, two parents and four grandparents. Recent study shows that parents with only one child at home now spend about 40% of their income to their cherished child. (Kotler & Bowen & Makens 2010, 93.) Those little emperors aged from newborns to mid-twenties are now affecting the Chinese markets for almost everything. Based on the age distribution data from the market report (WTCF & Ipsos 2014, 10), 56% of the Chinese outbound tourists are the post-80s and 26% are the post-70s (figure 17). This majority part, age segment from 25 to 45 years old is the most influential segment of the Chinese outbound tourists.

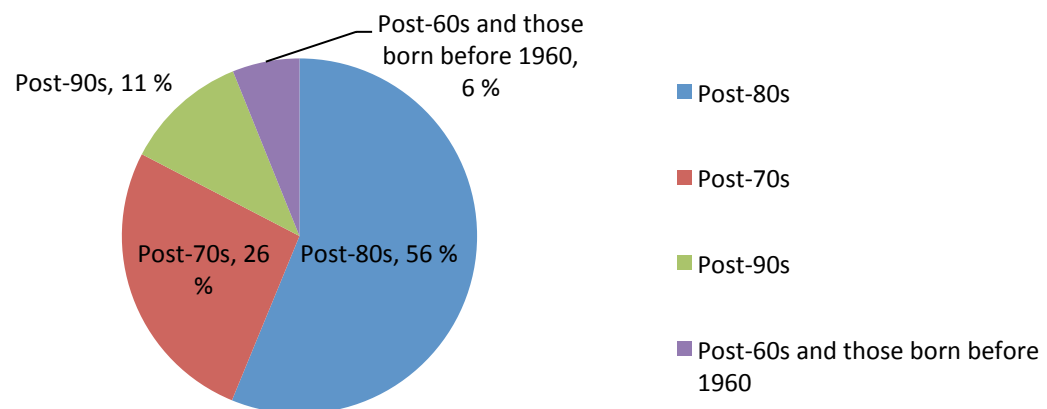


FIGURE 17. Age distribution of the Chinese outbound tourists

Over the next decade, the 35-60 year age segment shown in figure 18 (CIA 2014, The World Factbook) will experience a huge expansion in China. This will lead to substantial growth of travelers to abroad. According to the report of the Chinese outbound travel market, the working-age segment whose children are more than 20 years old and economically independent is expected to be one of the fastest growing demographic segments for outbound travel. The main source of growth in travel demand, however, is expected to be the young, affluent middle class people that could reach 500 million

people by 2025. (World Tourism Organization & the European Travel Commission, The Chinese Outbound Travel Market 2012 - Update, Executive summary.)

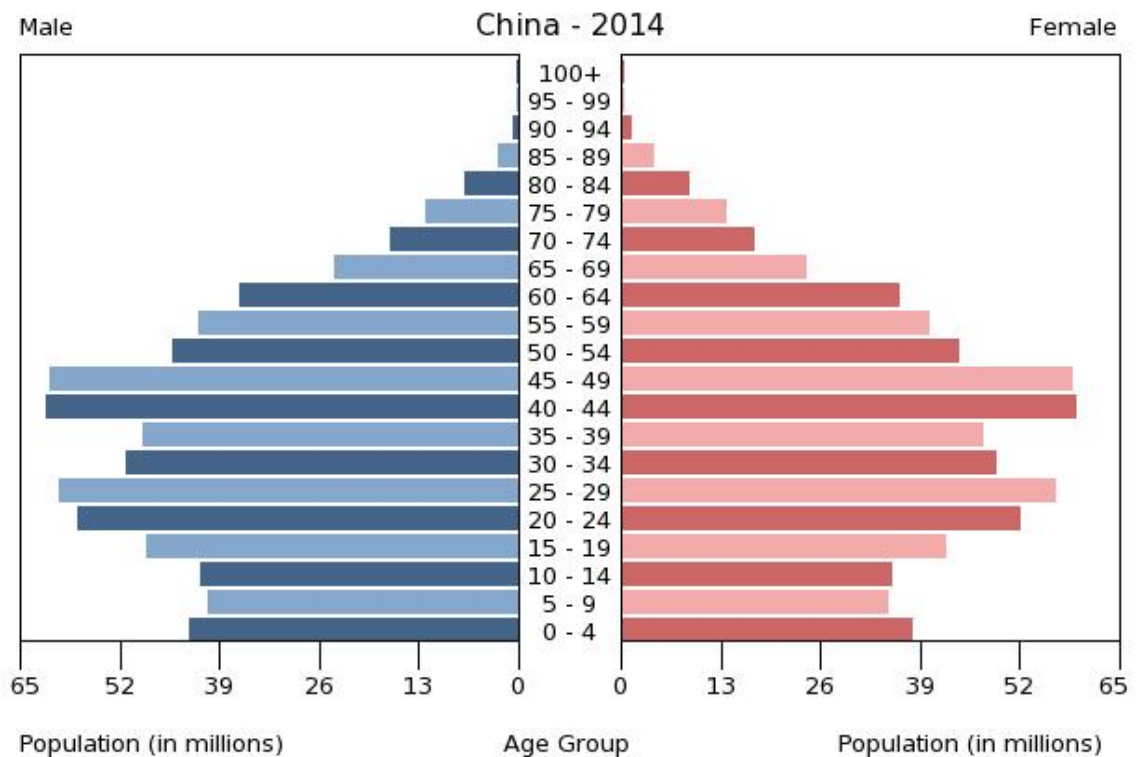


FIGURE 18. Age structure of China, 2014

As mentioned in the previous paragraph, one child policy has reshaped the Chinese market. The family tours with minor children have featured the Chinese outbound tourism and they are promoted as a way of enriching experiences of the children and broaden their horizons. It has taken more than half (59%) of the outbound market share (figure 19), followed by the group of singles (20%), married and childless (15%), married and having adult children (5%). (WTCTF & Ipsos 2014, 10.)

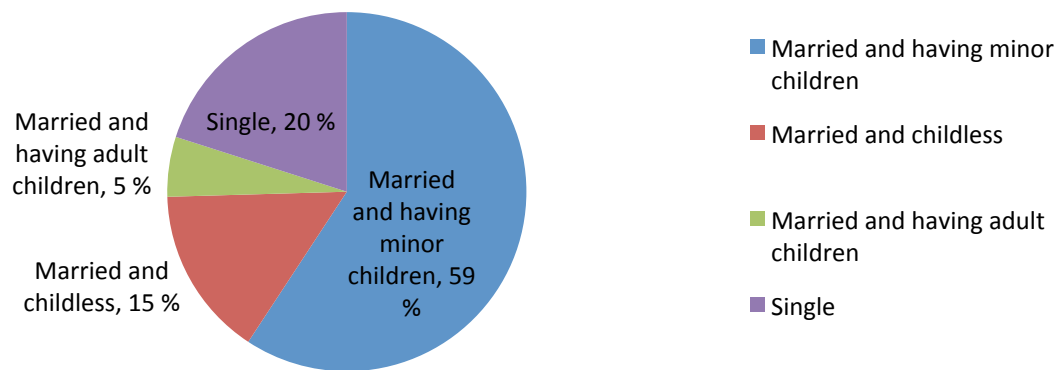


FIGURE 19. Marital and family status of Chinese outbound tourists

Income

The Chinese outbound tourists are still in the upper class and upper middle class of the Chinese society. Thanks to the appreciating Chinese yuan and rising disposable income, a growing number of Chinese upper middle class members are becoming the majority of the Chinese outbound tourists. The following figures 20 and 21 show the individual income and household income segments of Chinese outbound tourists (EU SME Centre 2014, Report: Tourism market in China, 7).

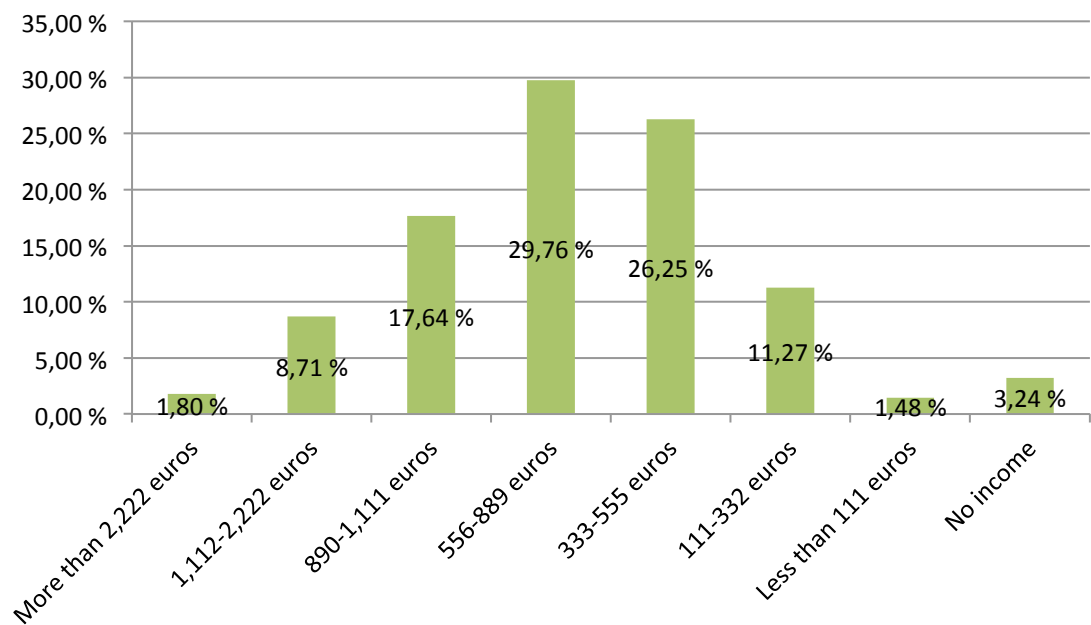


FIGURE 20. Chinese outbound tourists' individual monthly income breakdown in euros in 2011 (Original Source: China Tourism Academy 2012)

The data shows that in 2011 the average individual monthly income of Chinese outbound tourists was around 889 euros. In 2013, according to a report released by a Chinese human resource institute on May 29th 2013, the average individual monthly income of Chinese outbound tourists was 11,512 yuan equaling to 1,523 euros based on the currency rate in December 2014, which increased around 70% in just two years (WTCF & Ipsos 2014, 11).

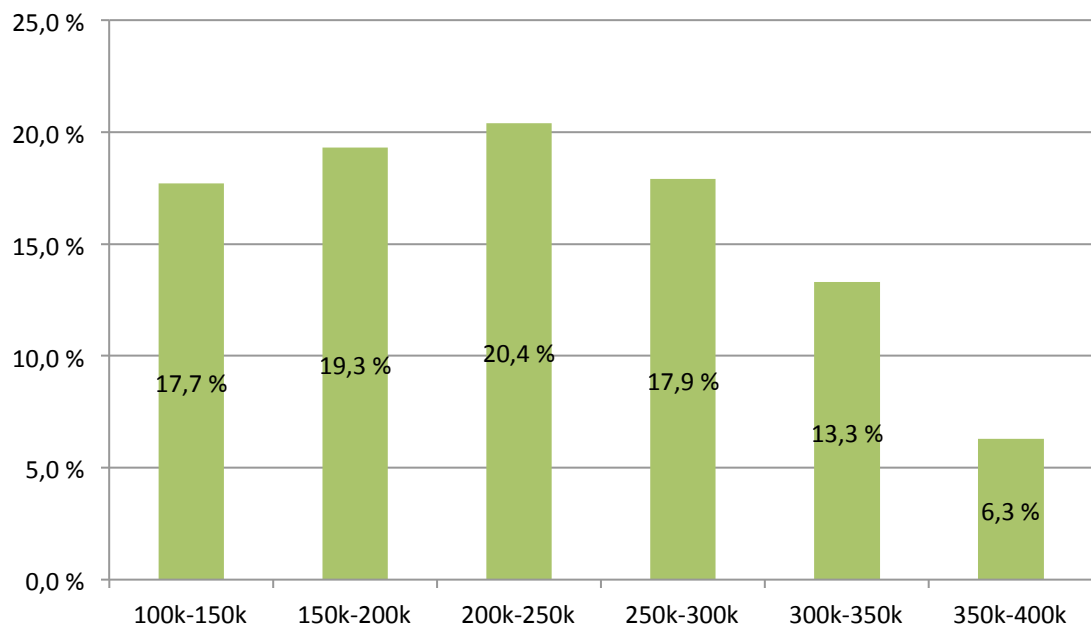


FIGURE 21. Chinese outbound tourists' household income breakdown in yuan in 2013 (Original Source: China Confidential Customer Research 2013)

Figure 21 shows that the average household income of Chinese outbound tourists was between 200,000 to 250,000 yuan (26,000 to 32,700 euros). Based on all the above demographic figures, it can be concluded that the Chinese outbound tourists are likely to be relatively wealthy upper class and upper middle-class Chinese with higher than average education, from first-tier cities (mostly from coastal and eastern provinces) and relatively young (EU SME Centre 2014, Report: Tourism market in China, 7).

3.1.3 China's new strategy and regulations to increase Chinese outbound tourism

The Outline for National Tourism and Leisure (2013-2020)

China has made a new national tourism strategy to redefine the tourism development and management in the country. 'The Outline for National Tourism and Leisure (2013-2020)', approved by the State Council, has shown that the Chinese government is trying to increase outbound tourism in terms of legislation. The outline has set the objectives (Guobanfa 2013):

By 2020, we will basically put in place a paid annual leave system for employees; urban and rural residents' consumption in tourism and leisure will enjoy substantial growth; healthy, civilized and environment-friendly ways of tourism and leisure will be widely accepted by the public; the quality of national tourism and leisure will improve remarkably, and a modern national tourism and leisure system required by an initially prosperous society will be set up.

The government aims to put in place a paid annual leave system for employees would lead to a substantial growth of urban and rural residents' consumption in tourism and leisure. The actual actions taken by the government are to enforce "Regulations on Paid Annual Leave for Employees" and to set up supervision on the implementation of paid annual leave. This encourages government agencies, social organizations, enterprises and public institutions to help their employees to make flexible time arrangements on their annual paid leave. In this way, employees will have more freedom and flexibility to choose when and where to travel (Guobanfa 2013).

Tourism Law of the People's Republic of China

In October 1st 2013, the new Tourism Law of the People's Republic of China came into effect. It is clear that the new law will change the Chinese outbound travel market by improving the quality and image of the Chinese outbound tourism. The law prohibits the sale of outbound tour packages (to any country) at unreasonably low prices and re-

quires increased transparency of the tourism products included in these packages (Xinhua 2013).

China Tourism Law, Article 35. “Travel agencies are prohibited from organizing tourism activities and luring tourists with unreasonably low prices, or getting illegitimate gains such as rebates by arranging shopping or providing tourism services that requires additional payment. When organizing and receiving tourists, travel agencies shall not designate specific shopping places, or provide tourism services that require additional payment. However, it does not include circumstances where both sides have agreed or the tourists have requested for such arrangements and no influence is caused on the itinerary of other tourists. In case of any violation to the above two paragraphs, tourists shall have the right to, within thirty (30) days from the end of the travel, require the travel agency to return their purchases and pay the price of the returned purchases on behalf in advance, or refund the payment made for tourism services that require additional payment.”

According to the new law, the below cost tours sold by the Chinese travel agencies are not permitted anymore. These below cost tours refers to the tours operated by the Chinese travel agencies consisting of mandatory shopping activities to make up the shortfall of operation costs through commissions received from shops. (Impact of New China Law, Chris Roberts, Tourism New Zealand 2013). These new regulations only apply to group tours and not fully independent travelers (FIT) and result in a substantial increase in the price of package tours. In turn, demand for package tours has dropped, particularly impacting markets that were driven by offering lower price. Those that are still travelling on group tours may spend less on shopping as a result of the more travelling expense in tours (The Moodie Report 2013). On the other hand, this new law has cleared a way for a stronger FIT outbound market (Manuela Barba, ChinaContact 2013).

Except for the Chinese outbound legislation, the difficult, expensive and complex visa application process for many countries, such as Europe, United States of America and Australia, are still a significant obstacle to growth. However, many governments have foreseen the growth of the Chinese outbound travel market and are making efforts to speed up and simplify the process. For example, starting November 12th 2014, the United States of America has extended the visa term for Chinese business travelers and tourists up to 10 years for multiple-entry and students up to 5 years or the length of their education program (Office of the Spokesperson; Washington, DC 2014).

3.1.4 China's online travel market

The growth of Internet usage in China is dramatically. A decade ago, Internet did not exist in China. And currently over 36% of the population, 640 million users are using Internet and the number is predicted to reach 750 million by 2015 (Internet Live Stats 2014). According to a market review, China's Internet users, netizens, in total spent 1.9 billion hours online every day in 2011 (3.6 hours per person, an hour more than US American users). Furthermore, China is the most engaged country due to high percentage of users engaging in social media. Research shows that 95% of the Chinese netizens in 1st, 2nd and 3rd tier cities have registered accounts on social media sites (Wonderful Copenhagen. Research & Development 2013, Review of China's Outbound Travel Market, 44).

The vast usage of Internet has affected the outbound tourism market in two ways: the development of online travel market and social media as a source for travel information in China. Online travel agencies (OTAs) are emerging, with Ctrip and Qunar taking the biggest market share. Recent statistics show that travel-related websites had already received more than 42 million visits per month in 2011. By May 2012, the online travel agencies' market share by total visits is shown in figure 22 (EU SME Centre 2014, Report: Tourism Market in China, 19).

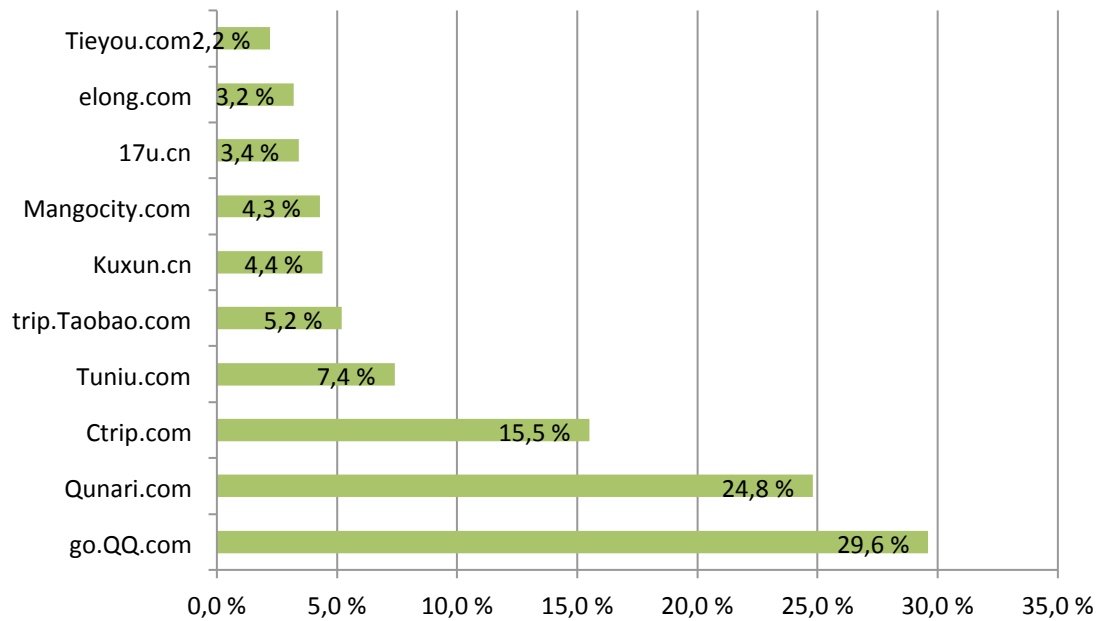


FIGURE 22. China OTA market share in 2012 (by total visits)

According to iResearch, the revenue of Online Travel Agents (OTAs) achieved 11.76 billion yuan (1.54 billion euros based on current exchange rate in December 2014) in 2013, with an increase of 26.2% compared to 2012 (iResearch Consulting Group 2014). In 2012, the market share of China's main OTAs ranked by revenue is listed in figure 23. Ctrip was leading the way with a 45% market share.

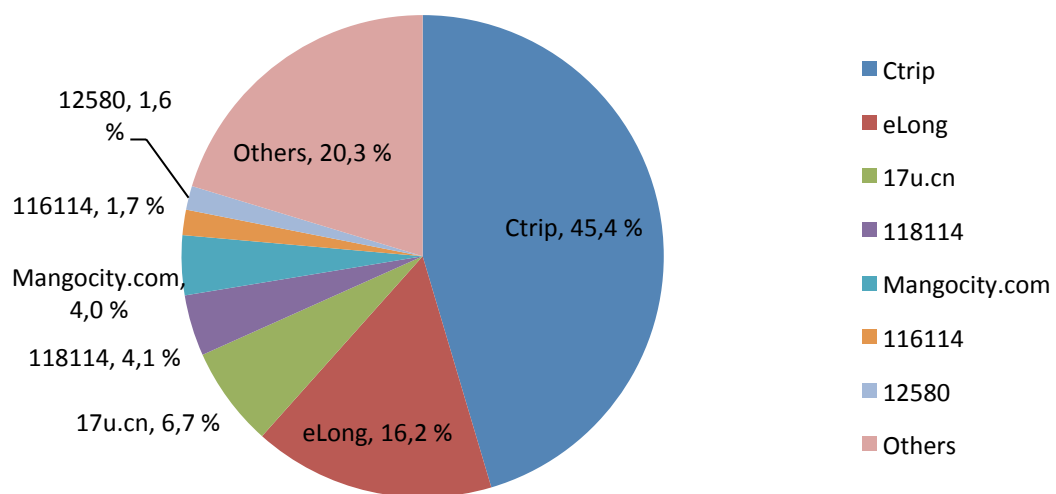


FIGURE 23. Market shares of China's main Online Travel Agencies in 2012 by revenue

The transparency of Internet has provided the possibility to compare prices, products and competitors easily. In addition to that, the 24/7-service flexibility of online travel agencies compared with traditional travel agencies is also another force pushing China's online travel market going forward. (EU SME Centre 2014, Report: Tourism Market in China, 18.)

As a source of information search, social media sites play a crucial role in shaping the China's online landscape. Wechat, Microblog (Weibo), Renren, Qzone, QQ, Youku and many others are used in Chinese netizens' daily life. These social media do not only have a large amount consumer base, but also gain high information credibility from their users. 85% of Chinese customers view the Internet as the most influential channel and 95% of Chinese customers trust in a company that is engaged and active on Weibo. Furthermore, Chinese customers say that they are more likely to consider buying a product if they see it mentioned on a social media site and more likely to purchase a product if recommended by a friend or acquaintance on a social media site. Many companies also use celebrities and opinion leaders to market their products or services in social media to increase their product credibility. (Wonderful Copenhagen. Research & Development 2013, Review of China's Outbound Travel Market 2013, 53.)

3.1.5 China's deteriorating environment

China's environmental crisis is one of the biggest challenges due to the rapid industrialization and lack of environment recognitions of residents. Life expectancy in the North China has decreased by 5.5 years due to air pollution, and severe water contamination and scarcity have compounded the land deterioration problems. (Beina Xu, China's Environmental Crisis 2014, Council on Foreign Relations.) All these problems have attracted public awareness through massive media information. The clean nature and environment in a travel destination serves as a rising attraction for Chinese outbound tourists.

3.2 Chinese outbound tourists' travel behavior

In order to be successful in the Chinese travel market, it is critical for marketers to understand Chinese tourists' travel behavior and demand. The majority of Chinese outbound tourists travel to regional destinations. The Asia and Pacific region had taken 91% (64 million) of the Chinese trips in 2011. Among these 64 million tourists, the Special Administration Regions (SARs) of Hong Kong and Macau had attracted respectively 28 million (40%) and 19 million (28%) tourists. Outside Asia and the Pacific region, Europe was the region with biggest number of Chinese travelers with over 3 million trips (4.4%) in 2011, followed by the Americas with almost 2 million (2.7%) trips and Africa with 1 million (1.4%) trips. (The Chinese Outbound Travel Market, World Tourism Organization and the European Travel Commission, 2012 - Update, Executive summary.)

In Europe, Russian Federation ranked as the number one destination with some 800,000 Chinese travelers in 2011, followed by United Kingdom, Germany and France with each around 300,000 to 400,000 travelers. The growth of the Chinese outbound tourists' travels to Europe is steady and promising. The departures to more mature regions of Europe have risen by 10% a year. Research invariably shows that Europe and individual European destinations are among the most favorite travel destinations of the Chinese outbound tourists. The ranking of leading destinations in terms of holiday travel – those most commonly offered by tour operators – suggests that France, Germany and Italy are the most popular destinations in Europe. (The Chinese Outbound Travel Market, World Tourism Organization and the European Travel Commission 2012 - Update, Executive summary, 10-11.)

“Nordic countries, in particular, have become more and more appealing to Chinese tourists in recent years because of their relatively high latitude, cool summer and wide range of winter sports opportunities.” said by Yang Qiang, director of China National Tourist Office (Jaycee Lui, gbtimes, 2013). In Finland, the overnight stays by Chinese tourists were 143,000, increased by 26.4% in 2013. From January to September 2014, the arrivals and nights spent by Chinese tourists are around 103,000 (Statistics Finland

2014). The Chinese outbound tourists become to know more about Nordic countries with the increasing promotions of Nordic travels made by various tourism organizations.

Leisure travel is growing

In the past 10 years, leisure travel has been rising fast as a travel market of Chinese outbound tourism. Table six shows that in 2012, the majority of Chinese outbound tourists travelling for leisure purpose accounted for around 70% and the rest was for business purposes, according to the data from Euromonitor International in August 2013 (EU SME Centre 2014. Report: Tourism market in China, 8).

TABLE 6. Departures by purposes of visit (2007-2012)

Departures by purposes of visit (2007-2012) Unit: thousands of trips	2007	2008	2009	2010	2011	2012
Business	9,072.7	8,539.1	9,075.9	10,964.8	13,307.7	15,093.1
Leisure	19,261.5	18,800.8	19,716.1	23,524.9	28,686.1	33,359.3
Departures	28,334.2	27,339.9	28,792.0	34,489.7	41,993.9	48,452.4

Based on the market research report on Chinese outbound tourist consumption, figure 24 shows that 86% of the Chinese outbound tourists chose travel/sightseeing as their primary purpose, 74% chose leisure/vacation travel and 43.94% of tourists said their trips were mainly for shopping (WTCTF & Ipsos 2014, 16).

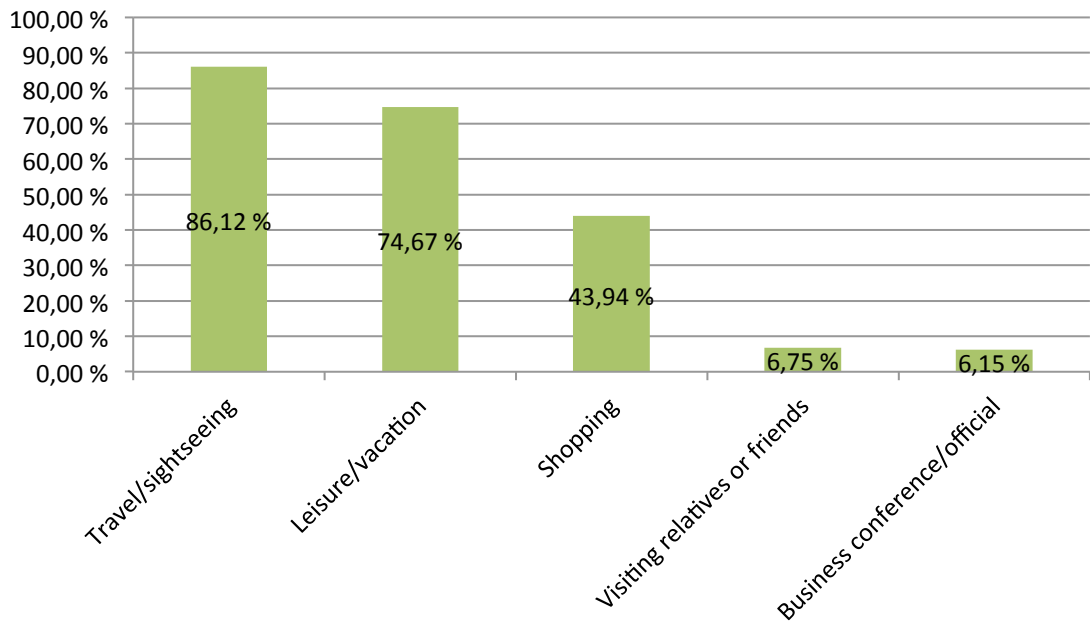


FIGURE 24. Purposes of Chinese outbound tourists

Shopping accounts for the biggest part of outbound travel expenditure

In the same market research report, it was pointed out that Chinese outbound tourists spend most in shopping. Over half of the tourists (57.76%) mentioned that their travel budgets mainly are used on shopping (WTCF & Ipsos 2014, 14). In terms of the place, duty-free shops are the most chosen shopping spots for Chinese tourists. According to the Global Blue analytics, China does not only play a role as the biggest shopping nation, accounting for 20% of the total global expenditure on tax-free shopping, but also as the fastest growing shopping nation. There are three categories of Chinese shopping choices. First is the souvenir expenditure because of the strong gift giving culture as a fundamental part of maintaining social and professional networks. The second is prestige, to show off inside the social circle. This prestige is shown by purchasing high-quality gifts and souvenirs for friends, family and colleagues. The last one is the luxury shopping thanks to the favorable tax-free environment. Due to high tax and product credibility of luxury goods in the domestic market, Chinese tourists prefer to buy the same product abroad. (Wonderful Copenhagen. Research & Development 2013, Review of China's Outbound Travel Market 2013, 36-38.) Concerning with the luxury expenditure, Hong Kong and Macau accounted for 26% of the market, and Europe and the

United States of America respectively had 23% and 10% of luxury goods, according to China Duty-free report 2013 (WTCTF & Ipsos 2014, 6).

Group travel is still dominant

As travel demand is still very young, most tourists are rather inexperienced and still preferring the safety and comfort of the traditional tour groups. Tour groups are preferred mainly because of the easier visa process, cheaper transportation and accommodation, and language assistance offered by travel agencies (Wonderful Copenhagen. Research & Development 2013, Review of China's Outbound Travel Market 2013, 26). In a market research report, the results show that 37.41% of Chinese tourists travel abroad in groups, 31.39% travel by themselves and 18.47% travel through semi-independent tours. (WTCTF & Ipsos 2014, 12.)

However, with the Chinese outbound tourists becoming more experienced, the demand for more deep inside travel experience would increase. Fully Independent Travelers (FITs) market is increasing remarkably in China. In 2013, there were 30 million FITs accounts for 30% of the Chinese outbound tourists (Mafengwo to release FIT Traveler Report 2013, Chinese Tourism Update 2014). Major tour operators and travel agencies are setting up independent FIT divisions to capitalize the growing business (China-GoGlobal, East Group, 2012). According to the China Outbound Tourism Yearbook 2014Q1, compiled by China Association of Travel Services and Ivy Alliance Tourism Co., Ltd., 79% of travel agents think that the Free Independent Traveler product will grow sharply with only 6% of travel agents predicting it will decrease (China Outbound Tourism Yearbook 2014Q1 briefing. China Tourism Update 2014).

In terms of the information inquiry, according to the market research, the top two channels for Chinese outbound tourists to search travel information are Chinese domestic tourism websites and travel agencies or official websites of travel agencies. Furthermore, the top two information publicity channels of companies preferred by Chinese outbound tourists are the open official website in the Chinese language and the open official Microblog and Wechat in Chinese social media (WTCTF & Ipsos 2014, 20).

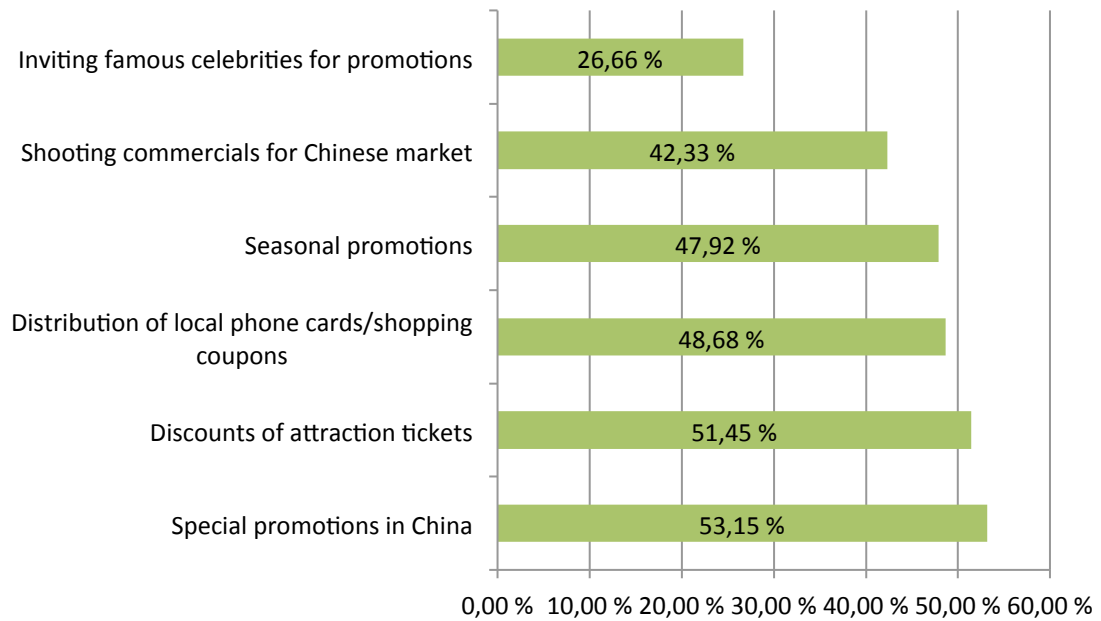


FIGURE 25. Forms of marketing campaigns

The research results show that Chinese outbound tourists are increasingly placing more attention on the international tourism exhibitions, travel fairs and large-scale public tourism promotions and marketing campaigns (WTCTF & Ipsos 2014, 20). In China, outbound tourists are more willing to receive comprehensive information of travel destinations and marketing activities. Marketers should make their efforts on their product or service presence of the promotion mix in figure 25 to gain the market awareness.

3.3 Competitors

The main competitor of the company X is the company Y that has the similar product and operates in the same region. Company Y has established its business in China since 1995 and had expanded its connections earlier than company X. Because of the high barriers to enter the market, company Y and company X are the main two companies in this hospitality market.

At the beginning of 2000, both companies had entered the Chinese market. At that time, company Y offered lower price to Chinese customers who were very price-conscious.

Therefore, company Y has gained a price competitive advantage over the company X. In the other hand, at that time company X aimed at high-level Chinese tourists who were usually business or government delegations. Company X had a higher price but justified it with its better facility and better service. As a result, company X gained a better and more luxury brand image than company Y in the Chinese market.

However, the Chinese travelers' composition has been changing since 2000. In 2012, 70% of the travelers were leisure travelers and 30% were business travelers. Company X's customers from China are decreasing in quantity. Thanks to the growing economy and the increasing purchasing power, Chinese leisure customers are not so price sensitive anymore. Therefore, gaining more leisure travelers from the Chinese market is the new marketing adjustment for the strategy of the company X.

Due to around 20 years' business history in China, company Y has established its own sales agent and business connections in China. There are several factors affecting that company Y has a higher market share than company X in the leisure tourist market at present. In terms of product, both companies provide the same core product to customers. Most of the Chinese tourists travel for the first time to abroad. Therefore, they do have direct experience of the quality of the product. In other words, they do not have the concept of quality in their mind as long as the products have the same function. As a result, the price becomes an important factor for the purchase decisions. Company Y has the price advantage over company X and this is widely acknowledged inside the Chinese travel agencies.

In terms of promotion, company Y has its own Chinese website, social media in Chinese and Chinese sales personnel. Social media is playing a critical role in the Chinese consumer market. Company Y has been actively presenting its company in Weibo since 2012 January. It posts news frequently and has more than 3500 fans. The post content does not only include the company's product, but also other organizations' news, such as tourist organizations, student unions, travel agencies, etc. Therefore, it has established a broad promotion platform. It also has its own Chinese website and sales personnel. Though many employees of the travel agencies in China do speak English, they still prefer to do business in Chinese. It is easier and more accurate to communicate

which will provide a better service experience for Chinese customers. Especially in some urgent situations they prefer to deal with Chinese personnel. Also by having Chinese sales personnel, company Y has closer customer relationship because of cultural factors.

3.4 Travel agencies and tour operators in the Chinese market

The Chinese National Tourism Academy reports that there are currently more than 24,900 travel agencies and only 2,515 of them are allowed to operate in outbound tourism. These agencies are mainly located in Beijing and Shanghai, as well as in Zhejiang and Jiangsu provinces. In cooperation with China Tourism Association, the CNTA has ranked the agencies by revenue. The top 10 domestic operators in the Chinese tourism industry are (EU SME Centre 2014. Report: Tourism market in China, 12-17):

- China National Travel Service (HK) Group Corporation
- Ctrip Travel Group
- Overseas Chinese Town Enterprise Co. (OCT)
- Jin Jiang International Holdings Co., Ltd.
- Beijing Tourism Group (BTG)
- HNA Tourism
- Qunar
- CITS Group Corporation
- Shanghai Spring International Travel Service
- Jinling Holdings Limited

Because of the vast development of Internet, online travel market is expanding dramatically. The major Online Travel Agents were listed in the previous paragraph. Considering the limitations imposed by the CNTA on outbound travel for Chinese nationals,

current available data shows that only three actors had been granted the “outbound license” in May 2011. The three joint-venture companies are (EU SME Centre 2014. Report: Tourism market in China, 19-20):

- CITS American Express: founded in 2002, a merger between China International Travel Service (CITS) and American Express
- JTB New Century International Travel: founded in 2000, the first joint venture in the travel industry in China, a partnership between JTB international (49%) and China’s CITIC Travel (51%)
- TUI China: founded in 2003, a joint venture between TUI AG (75%) and China Travel Service (CTS) (25%)

By analyzing the main actors in the Chinese tourism market, it is critical for company X to understand better the dynamics of the Chinese tourism industry. Travel agencies are so far still the big player in the Chinese outbound tourism market. A recent study shows that up to now, 87.54% of Chinese tourists choose travel agencies for outbound tourism services. In the near future, Chinese tourists are still mainly relying on travel agencies for arranging their overseas tours. 94.13% of tourists said they will continue to purchase tourism products via travel agencies (WTCTF & Ipsos 2014, 12).

4 MARKETING RESEARCH FOR THE COMPANY X

This research was conducted for the company X, which intends to find out how to improve its marketing performance in the Chinese outbound tourism market, from tour operators' and travel agencies' perspectives. By identifying what are travel agencies' and tour operators' needs and wants, company X could adjust its marketing strategy and marketing tools to create a better customer relationship.

4.1 Research problems and objectives

The research objectives were evaluating the company's current marketing performance, identifying challenges during the operation with Chinese tour operators and travel agencies and exploring new potential marketing tactics.

The key research question of this market research was how to improve the cooperation with market intermediaries in the Chinese market. However, this key question raised more sub-questions, which could provide specific information needed for planning the marketing tactics. The sub-questions are listed as follows:

- How to develop the company's product features to attract Chinese customers?
- What is the preferred product price?
- What is the evaluation of current sales procedures?
- What are the factors contributing on building a good customer relationship?

4.2 Research process

In this study, the research project did not follow all the steps in the exact order and did not involve each step mentioned in the previous chapter. This is because during the marketing research process the author discovered some new information and moved backward in the process and began again in another step.

4.2.1 Data collection

To meet the specific research objectives, primary data collection was conducted in this research. As the first part of planning primary data collection, the research approach used in this study was survey research to obtain descriptive information. This survey research was structured and direct. The flexibility of this survey research could help to gain many different kinds of information in addition to the answers to ready designed questions. However, survey research conducted in this study also has its limitations. Some respondents may have not taken the questions seriously or did not want to take the time to go through all the questions. Some were unable to provide actual information because of privacy reasons. All these limitation needed to take into account when analyzing the data. (Kotler & Bowen & Makens 2010, 128; Holloway 2004, 75.)

Because the survey aimed to find out what are the Chinese tour operators' and travel agencies' thoughts of the company's services, the sample were the representatives from different tour operators and travel agencies who purchase the services from the company X. The estimated number of people to be surveyed was totally 5 to 10 persons from different categories. The final results were collected from six representatives. They were tour operators and travel agencies operating in China, Finland and Germany.

The contact methods used in this research were sending e-mails, making telephone calls and personal face-to-face interviews, because during the data collection process, the

author of this survey lived in Tampere, Finland and most of the respondents were located in Helsinki, Finland, China and Germany. Therefore, the author sent the survey to respondents by e-mail in advance and asked for respondents' preference of conducting the survey. Three of the interviews were conducted face-to-face. Two were carried out by Wechat phone call. One interview was divided into two sections, the first section was conducted face-to-face, and the second one was done by Wechat phone call.

4.2.2 Questionnaire design

The second part of collecting primary data is the research instrument. In this study, it was a structured interview that employed the use of a questionnaire. The questions were generated from the marketing mix variables, the developed "7Ps" of E. Jerome McCarthy in association with the "4 Cs" of Bob Lauterborn. The questionnaire is presented in the appendix.

4.3 Results

In this study, the findings were interpreted and analyzed to develop a better marketing mix for the company X. Due to confidential concerns, the findings are presented in appendices.

5 DISCUSSION

By analyzing the marketing environment of the company X this study has found out that with the China's growing economy, rising disposable income, rapid urbanization, and appreciating Chinese currency yuan, the number of Chinese outbound tourists will increase, especially the amount of tourists from central or western cities in China over the next decade. Their purchasing power and expenditure on outbound trips will rise continuously. Meanwhile, the Chinese government is also making efforts to build a healthy and dynamic Chinese outbound tourism and to improve Chinese outbound tourists' image. Though 90% of the Chinese outbound tourists travel to Asia-Pacific region destinations, Europe still ranks high as a travel destination with an average increase of 10% every year.

At present, the group travels account for the majority of the Chinese outbound tourism due to visa application service, language assistance and cheaper budget offered by travel agencies in China. Travel agencies and tour operators are playing an important role of bringing Chinese tourists to destinations. However, with the growing demand of more deep in travel experiences and the wide range of available information channels, the more customized Fully Independent Traveler (FIT) market is increasing dramatically and the online travel market is changing the Chinese outbound tourists' travel pattern.

Emerging online travel agents, travel information websites and social media have reshaped China's outbound travel market. Online travel agents have provided tourists with a more transparent way to compare prices and to purchase tourism products. Travel information websites have enriched Chinese outbound tourists' practical knowledge and have changed the traditional information search channels. Furthermore, the social media has a huge influence on the tourists' purchase decisions. The credibility of the social media, especially the celebrities' or opinion leaders' social media judgments are crucial to be successful in the Chinese market.

This study has laid out the market facts of Chinese outbound tourism and pointed out the market trends for company X. A completed marketing plan was not made which

consists of marketing environment analysis, marketing strategy, marketing tools, marketing implementation and evaluation. Therefore, for further development in the Chinese outbound travel market, company X should first design its marketing strategy and keep an eye on the Chinese outbound travel market trends and react fast on the market changes, such as the online marketing and emerging FIT market. Secondly, the company X should study more about the Chinese customers' travel behavior and create its own Chinese customer profile. By knowing who are the customers and what customers want enables company X to make more efforts to tailor its products to achieve customer satisfaction. Finally, the company X needs to understand Chinese business culture and to build a better relationship with travel agencies and tour operators in China. By doing so, it does not only benefit the company X to achieve more sales, but also to gain the competitive advantage of inside knowledge of the Chinese tourism market trends to develop new products for the Chinese outbound tourists.

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APPENDICES

Interview results are described in the appendices 1-6.